BC Gas Inc. 2002 Annual Report

A PLAN IS ONLY A PLAN UNTIL YOU DELIVER

Introducing Terasen, a new name for BC Gas – looking to the future, building on the past.

Since our beginning as a gas company we have focused on one goal – connecting our customers safely, efficiently and reliably to the energy and services they need for their homes and businesses. Through the years we have built on our foundation in natural gas to offer other essential products and services to customers in Western Canada and beyond through new and related businesses.

These companies, all part of the BC Gas Inc. group, operated under a variety of names; BC Gas Utility, Centra Gas, Trans Mountain Pipe Line, Corridor Pipeline, BCG Services, and BC Gas International.

As we grew, we outgrew our name. The strength of our company was not being clearly communicated to customers, investors and employees. We have now brought our companies together under a new name – Terasen.

Connecting and transporting essential services demands experience in a variety of complex areas from customer service to environmental planning, construction and operations. This expertise resides in the people of Terasen, their connections to each other, to their customers and to their communities.

It's not about the resources we deliver, it's about our resourcefulness and commitment.

TERA•SEN *(Sent from the earth)*

terasen

HERE'S HOW WE'RE DELIVERING

We added the Express Pipeline System

With the acquisition of the Express Pipeline System, we've enlarged the footprint of our petroleum transportation business. Extending from Alberta to Wyoming and Illinois, the Express and Platte pipelines are a major link between Canadian producers and customers across the Midwest and Rocky Mountain states.

We acquired Centra Gas British Columbia

We now serve customers on Vancouver Island and the Sunshine Coast. A natural fit with our existing strengths, Centra Gas increases our asset base by 20 per cent and offers potential for further developing our natural gas customer base.

We completed Corridor Pipeline

Completed on-time and on-budget, the Corridor Pipeline expands our petroleum transportation business and enables us to benefit from the growing opportunities offered by the Athabasca Oil Sands. The Alberta oil sands now account for 40 per cent of all Western Canadian oil production.

Common shares of BC Gas Inc. are traded on The Toronto Stock Exchange under the symbol BCG. The Company's head office is in Vancouver, British Columbia.

Terasen Group of Companies

Terasen provides its customers with essential products and services they need for their homes, businesses and communities. Our people focus their experience and expertise in several key sectors – natural gas distribution, petroleum transportation, waterworks, utility services and international consulting.

Terasen Gas

BC Gas Utility, Centra Gas B.C., Centra Gas Whistler, Squamish Gas
Natural gas for homes and businesses

Terasen Pipelines

Trans Mountain Pipe Line, Trans Mountain Enterprises, Trans Mountain Oil Pipeline, Corridor Pipeline, Express Pipeline, Platte Pipeline, Bison Pipeline
Petroleum transportation

Terasen

Terasen Waterworks

BCG Services
Water, wastewater and irrigation products

Terasen Utility Services

BCG Services
Water, wastewater and energy systems

Terasen International

BC Gas International
Natural gas infrastructure services worldwide

Financial Performance

Our consistent financial performance is reflected in BC Gas' annual shareholder return, which has outperformed both its peer group and the TSX Composite Index over the past five years. Since 1998, BC Gas has achieved its objective of increasing earnings by six per cent per year. We are committed to achieving our financial targets while maintaining a low risk profile and focusing on our core businesses.

FINANCIAL RESULTS

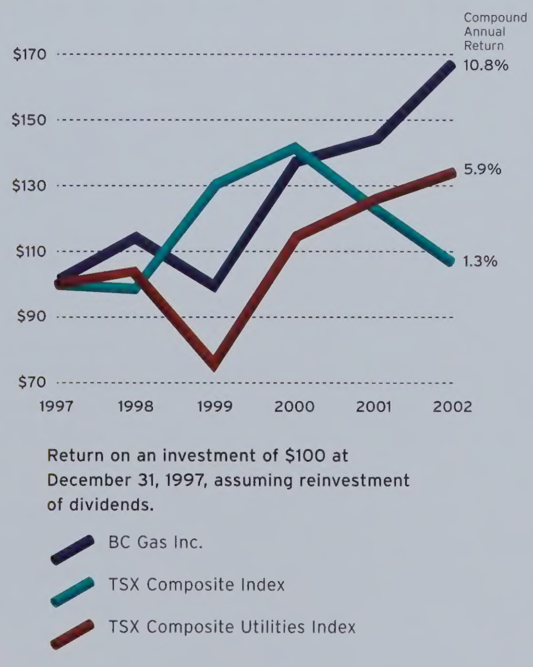
(dollar amounts in millions except per share data) *Years ended December 31*	**2002**	2001	2000
Gross revenues	**$ 1,707.2**	$ 1,666.3	$ 1,305.6
Earnings before non-recurring items	**$ 105.8**	$ 84.6	$ 78.8
Earnings applicable to common shares	**$ 105.8**	$ 84.6	$ 108.8
Total assets	**$ 4,522.4**	$ 3,705.7	$ 3,513.1
Earnings per share before non-recurring items	**$ 2.45**	$ 2.21	$ 2.06
Earnings per share	**$ 2.45**	$ 2.21	$ 2.84
Dividends per share	**$ 1.410**	$ 1.300	$ 1.225
Book value per share	**$ 24.00**	$ 18.65	$ 17.86
Return on common equity	**11.7%**	12.1%	12.0%

EARNINGS PER SHARE

DIVIDENDS PER SHARE

Since 1998, earnings per share and dividends per share have grown at compound annual rates of 7.3 per cent and 6.6 per cent respectively.

SHAREHOLDER RETURN



Return on an investment of $100 at December 31, 1997, assuming reinvestment of dividends.

John M. Reid
President and
Chief Executive Officer

Iain J. Harris
Chairman

Letter to Shareholders

Over the past year, we continued to deliver on our successful strategy of strengthening and expanding our base businesses and growing from our core expertise. THE RESULT WAS A YEAR OF GROWTH IN EACH AREA OF BUSINESS, STRONG FINANCIAL RESULTS AND AN INCREASE IN SHAREHOLDER VALUE.

2002 was a difficult year for many leading utility and pipeline companies, particularly those who had ventured into the energy trading business. For BC Gas, however, it was another year of very solid performance. We enjoyed growth in all of our major business segments – natural gas distribution, petroleum transportation and energy and utility services – and delivered very solid financial results. At the same time we managed this growth in a fashion that earned us plaudits for our environmental and corporate governance performance. It is very gratifying to be able to report positive financial results for our shareholders while receiving praise from those who measure other important aspects of our corporate reputation.

As readers of previous reports will be aware, we are very tightly focused on value creation and a low risk business strategy. Our 2002 results continue to reflect growth in value to shareholders: the annual dividend rate increased from $1.32 to $1.44 and the closing price of our shares rose from $33.19 in 2001 to $38.16 on December 31, 2002. This represents a continuation of our five-year record during which time earnings per share have increased at an annualized growth rate of 8.5 per cent. During the same period, total

shareholder returns from share price growth and reinvested dividends have averaged, on an annualized basis, 10.8 per cent per year.

The overall market capitalization of our Company increased during the year from $1.3 billion to $2.0 billion, a function not only of the share price increase but also of the 13.3 million new shares issued to finance the acquisitions of Centra Gas and the Express Pipeline System. We take this as a vote of confidence by the market in our business strategy and we appreciate it. We intend to continue with our tight strategic focus — strengthening and expanding our base businesses and selectively growing from our core areas of expertise, all with the objective of creating shareholder value.

OUR BASE BUSINESSES

NATURAL GAS DISTRIBUTION

At the beginning of the year, we completed the acquisition of Centra Gas British Columbia and Centra Gas Whistler. This extension of our existing natural gas distribution system means we now serve 850,000 customers representing about 95 per cent of gas consumers in the province.

We harmonized the environment, health and safety programs of Centra Gas and BC Gas Utility in 2002 and expect to pursue further operational efficiencies in 2003.

On the regulatory front we achieved a three-year settlement for the Centra Gas system and received a one-year revenue decision from the B.C. Utilities Commission, which we are working to use as the basis for a multi-year performance-based settlement.

We are encouraged by the new energy policy in British Columbia which mandates the return of BC Hydro to regulation and signals the end of the electricity price distortions in our marketplace.

We continue to be interested in developing the Inland Pacific Pipeline Project to expand our natural gas pipeline west and south from Oliver, B.C. to our major markets in southwest B.C. Uncertainties over BC Hydro's development plans for Vancouver Island and the difficulties of obtaining approvals may delay this investment beyond what we had earlier hoped.

PETROLEUM TRANSPORTATION

This was a year of remarkable expansion. The Corridor Pipeline, a $700 million project, was completed on-time and on-budget and Shell Canada is expected to begin moving bitumen from the oil sands near Fort McMurray to their upgrader plant near Edmonton during the month of April. The construction of this dual pipeline system has enhanced the

EARNINGS (LOSS) APPLICABLE TO COMMON SHARES

(dollar amounts in millions except per share data)
Years ended December 31

	2002	2002 Per Share	2001	2001 Per Share
Natural gas distribution	**$ 92.4**	**$ 2.14**	$ 67.8	$ 1.77
Petroleum transportation	**29.3**	**0.68**	27.3	0.71
Other activities	**(15.9)**	**(0.37)**	(10.5)	(0.27)
Earnings applicable to common shares	**$ 105.8**	**$ 2.45**	$ 84.6	$ 2.21

reputation of our pipeline business both as developers and operators and earnings from this project will begin in 2003.

In early 2003, we concluded the purchase of an interest in the Express Pipeline System from Encana. The purchase adds two pipelines — one from Hardisty, Alberta to Casper, Wyoming and the second from Casper to Wood River, Illinois. More to the point, it represents an opportunity for our petroleum pipelines group to now move product from the oil sands into the Alberta refining areas and from Alberta into the U.S. Rocky Mountain and Midwest market areas. We expect that the growing demand pull from those areas combined with the supply push of the oil sands will soon result in an economically attractive expansion of the Express system.

This was a very large expansion of our business and we took on financial partners to accomplish it. Borealis Capital (acting on behalf of the Ontario Municipal Employees Retirement System) and the Ontario Teachers' Pension Fund have access to large pools of capital. Combining their capital with our industry expertise gave us an advantage against others competing to purchase these valuable assets. We will receive an equity return on our one-third ownership share and a management fee as operators of the system.

OTHER LINES OF BUSINESS

We continue to pursue a strategy of extending our core competencies into other complementary businesses. While these do not represent large capital investments by comparison to our two principal businesses, they represent some very promising opportunities for growth.

BCG Services, a full-service provider and wholesale product distributor of water and wastewater treatment plants and distribution systems, strengthened its position in 2002 through the addition of 40 water and wastewater treatment plants, making us the leading private-sector water utility operator in Western Canada. Contracts were won for water meter installation and reading contracts and other multi-utility services in a number of municipalities.

BC Gas International continues to focus our international consulting and engineering services in the Arabian Gulf region. In 2002 we completed phases two and three of the Sharjah gas distribution project in the United Arab Emirates. In Oman, as part of a joint venture, we completed the first year of a five-year project to operate the Oman Gas Company's natural gas transmission facilities.

CustomerWorks reached an agreement with Accenture to provide customer care services for CustomerWorks' 3.5 million customers in Canada. This is consistent with our approach to minimizing risk associated with operating costs. We hold a 30 per cent interest in the CustomerWorks Limited Partnership.

We now own 44 per cent of ENRG, the largest alternative fuel re-fueling company in North America. ENRG serves fleets in the taxi, trash hauling, transit and airport industries. In 2002 the number of fueling stations was increased to 145 through construction and acquisitions. Sales volumes in 2002 at existing stations grew more than 80 per cent over the previous year.

CORPORATE

Two significant initiatives in 2002 added strength to our business: the combination of our management expertise with partners who enjoy strong financial capabilities; and the strengthening of our balance sheet resulting from the issuance of more equity than was required to finance the Centra and Express acquisitions. As a result our debt to equity ratio has improved from 71/29 in December 2000 to 66/34 at the end of 2002.

Our Enterprise Risk Management plan has been put in place and was the determining factor in our Company being selected to win the Conference Board of Canada/Spencer Stuart National Award in Governance for 2003. It was very pleasing to win this award at a time when there is so much concern among the investment community and the community at large about corporate governance.

We continue to develop our organizational structure to allow management of the operating business units to develop further focus on their operations while allowing management at the corporate level to focus on finance, new business opportunities and public policy.

OUR NAME

As you will see elsewhere in this report, we have concluded that the expansion of our lines of business and the widening footprint of our business have made our name, which we have been proud to use since 1989, somewhat limiting both in terms of our operating activities and our geography. 'BC' no longer describes our geography when we are active throughout Alberta and south and east in the United States. 'Gas' is inappropriate to employees trying to sell our services in the water and oil businesses. We needed to change our name and we have settled on Terasen.

Terasen is derived from 'the earth' and 'send'. Terasen – or 'sent from the earth' – is what our water, natural gas and petroleum transportation businesses have in common. In fact, we have already put the name into place for the petroleum pipelines group because the terms of the Express purchase required us to remove the Encana name as quickly as possible from the acquired assets.

We hope you like the new name and vote to approve the change in our corporate name. We want to assure you that while we may have a new name we remain committed to our focus on our low risk profile and steady earnings growth.

OUR EMPLOYEES

For many employees the most appropriate word we can say is 'Welcome'. With the acquisition of Centra Gas and Express we have many employees for whom this is their first annual report. It is our employees who give effect to our corporate strategies. It is they who are responsible for the effective execution of our plans. We are grateful for another successful year based on their performance.

THANKS AND FAREWELL

This year marks the retirement of Mr. Robert Stewart from our Board. Mr. Stewart has served with distinction since 1993. His has been a valuable voice at the Board table reflecting his business experience in Canada and abroad. It is fitting that we introduce our new name in concert with Mr. Stewart's departure as his was an inspiring role in this undertaking. We thank Mr. Stewart for his long and valued service and we wish him every success in his future endeavours.

Iain J. Harris
Chairman

John M. Reid
President and Chief Executive Officer

February 14, 2003

Our Strategic Focus

BC Gas' vision is to be a leading provider of energy transportation and utility asset management services. The Company creates shareholder and customer value by bringing a combination of operational excellence, financial excellence and focused business development to the provision of these services.

STRENGTHENING AND EXPANDING OUR BASE BUSINESSES

NATURAL GAS DISTRIBUTION

Our Company is the primary provider of natural gas service in British Columbia, serving 95 per cent of the province. In 2002, we acquired Centra Gas, further strengthening our base business.

PETROLEUM TRANSPORTATION

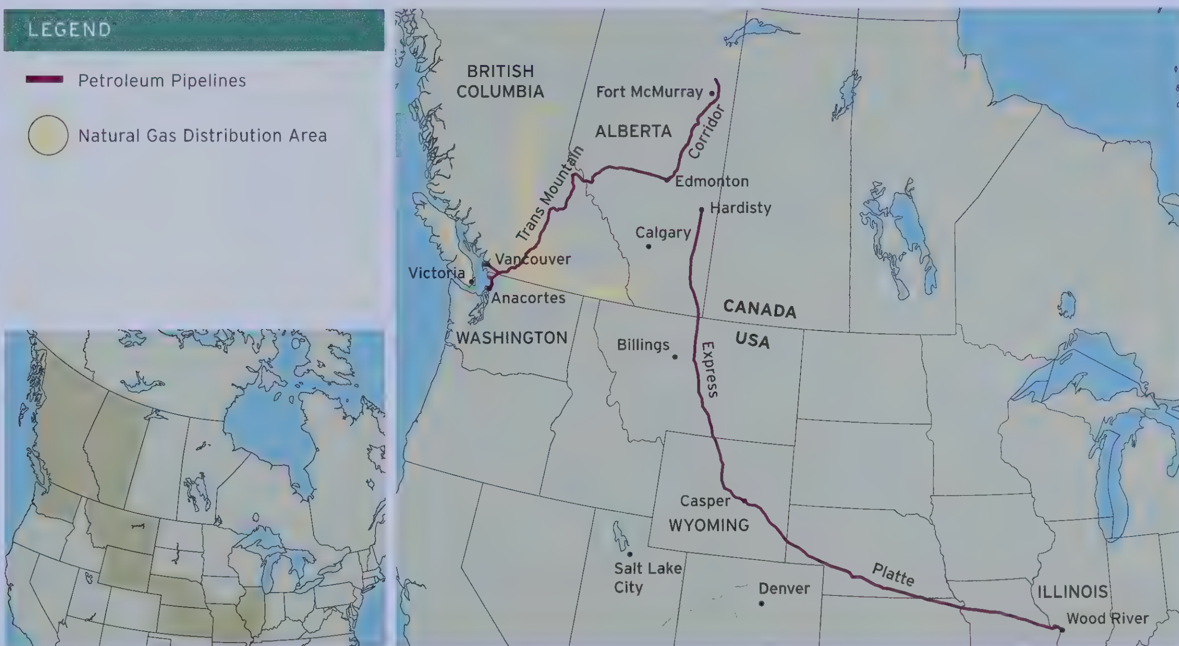
We have enhanced our market position as one of the largest petroleum transportation operators in Western North America by completing construction of the Corridor Pipeline in 2002 and acquiring an interest in the Express Pipeline System in early 2003.

SELECTIVELY GROWING FROM OUR CORE AREAS OF EXPERTISE

ENERGY AND UTILITY SERVICES

Our energy and utility services businesses expand our multi-utility capabilities, and in 2002 we continued to grow these businesses.

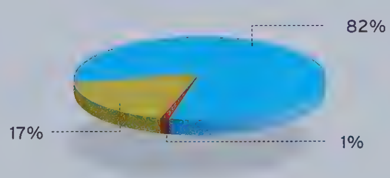
Natural gas distribution and petroleum transportation are the Company's two base businesses. These two businesses represented 99 per cent of total operating income in 2002. The acquisition of an interest in the Express Pipeline System in early 2003 significantly increased the size of our petroleum transportation operations.



Year ended December 31, 2002

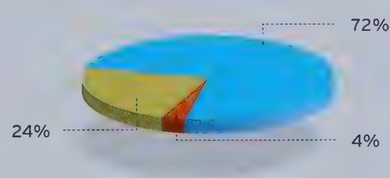
- Natural Gas Distribution
- Petroleum Transportation
- Other Activities

OPERATING INCOME IN 2002



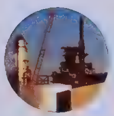
Total: $336.5 million

ASSETS AT DEC. 31, 2002



Total: $4,522.4 million

Petroleum Transportation

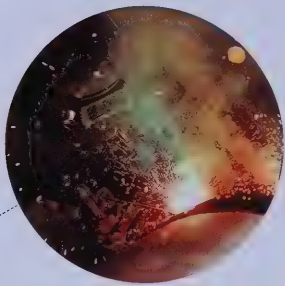


SIGNIFICANT EXPANSION – IN 2002, WE ADDED SIGNIFICANTLY TO OUR PETROLEUM TRANSPORTATION BUSINESS. WITH THE ACQUISITION OF THE EXPRESS PIPELINE SYSTEM – A 2,747-KILOMETRE PIPELINE EXTENDING FROM ALBERTA TO ILLINOIS – our petroleum transportation business has expanded continent-wide, and now provides two major links between Canadian producers and U.S. markets.

EXPRESS ACQUISITION

In January 2003, in partnership with pension fund managers Ontario Teachers' Pension Plan Board and Borealis Capital Management, we finalized the acquisition of the Express Pipeline System. The system — which includes Platte Pipeline — is a major export pipeline for Canadian petroleum and extends our reach to growing markets in the U.S. Rockies and Midwest. Express transports both light and heavy oil from Hardisty, Alberta to Casper, Wyoming and connects to the Platte Pipeline which continues on to Wood River, Illinois. The pipeline provides Canadian crude to serve the needs of American refiners, who are faced with declining domestic production. With very cost-effective expansion capabilities, Express is also well positioned to take advantage of future expansion opportunities.

Key Markets
Salt Lake City and Denver are key markets for the Express Pipeline System.



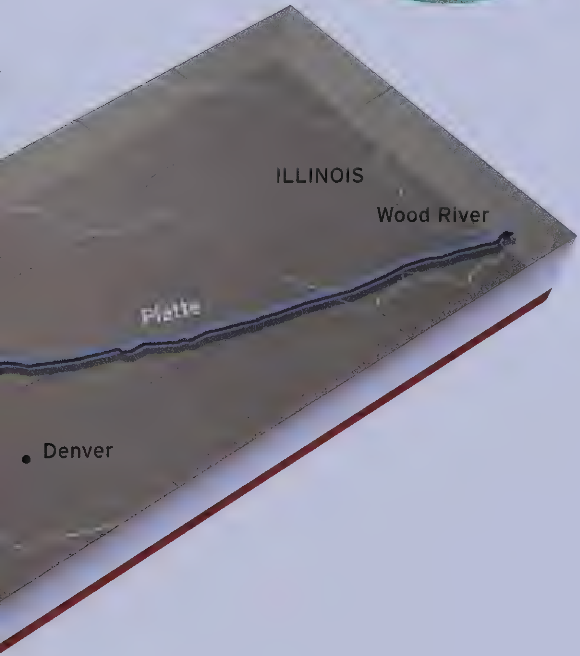
CORRIDOR PIPELINE COMPLETED

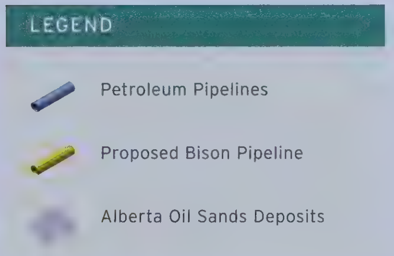
Corridor is a valuable asset that opened the door to our participation in the development of the Athabasca Oil Sands. The system was completed in 2002 on-time and on-budget, with commercial operation slated to begin in 2003. Corridor is a key component of the Athabasca Oil Sands Project (AOSP) — developed by Shell Canada, Western Oil Sands and Chevron Canada. It connects the AOSP Muskeg River Mine north of Fort McMurray to the project's upgrader adjacent to Shell's Scotford Refinery near Edmonton. Several new techniques were used in the construction of Corridor, resulting in significant cost savings and a reduced risk of cost overruns.

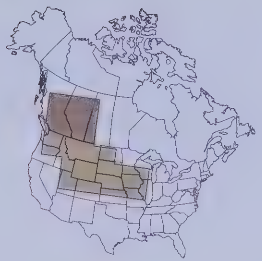
ALBERTA OIL SANDS A PRIME FOCUS

Production from Alberta's oil sands will be key to meeting North America's oil consumption needs over the coming years. Our petroleum transportation growth strategy recognizes this fact, and our achievements during the year position us to benefit as production continues to increase from this oil-rich area.

We've followed a disciplined growth strategy, beginning with our commercial arrangements with Shell Canada and their partners for the Corridor Pipeline. We successfully executed this project on-time and on-budget. And with the addition of the Express Pipeline System, we now transport Western Canadian crude, including production from the oil sands, to growing markets in the U.S.







ONE OPERATOR TO MEET SHIPPERS' NEEDS

Our petroleum transportation business now operates under a new name: Terasen Pipelines. Reflecting a year of achievement and expansion, Terasen Pipelines is now a significant operator of crude oil and synthetic product pipelines in Western North America. The completion of Corridor Pipeline and the addition of the Express Pipeline System in early 2003 build upon the strengths of the Trans Mountain system.

In 2002, deliveries on the Trans Mountain mainline system were 201,000 barrels per day (31,986 cubic metres per day), down from the high volumes recorded in 2001. The reduced volumes reflect lower refinery demand in Washington State and the higher price of Canadian crude oil, partially offset by increased offshore deliveries to California.

It is expected that deliveries on the Trans Mountain system will grow as increased production of bitumen and synthetic crude products from the Alberta oil sands put price pressure on Canadian crude, making it increasingly attractive to Washington State refiners. Crude from the Alberta oil sands is now being delivered to markets in California and the Far East. These offshore exports are expected to increase as production from the Alberta oil sands increases.

Last year marked the second year of a five-year toll settlement with shippers on the Trans Mountain mainline system. The settlement provides shippers with toll stability while offering incentives to the Company to increase deliveries of crude oil and to benefit from any realized efficiencies and savings associated with pipeline operations.

Oil Sands Opportunity

There's a renewed focus on the Alberta oil sands, which has deposits that are larger than Saudi Arabian reserves. First, improvements in technology have driven down the cost of extracting bitumen from the oil sands. And second, the decline in conventional crude production has increased price expectations for producers.

While concerns about the cost of implementing Canada's ratification of the Kyoto Protocol and determining the cause of recent project cost overruns may slow the pace of development, the size of the resource and its proximity to the growing demand of U.S. markets will ensure that development occurs. A number of large producers are looking at expanding existing projects or initiating new large-scale projects that will come on stream over the next few years.

Production from Western Canada is expected to increase from approximately 2.2 million barrels per day (bpd) to 2.6 million bpd in 2006 and to more than 3.1 million bpd in 2010. Increased supply will predominantly be products from the Alberta oil sands.

PLANS TO EXPAND THE SYSTEM

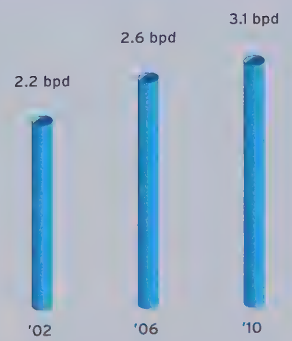
To meet future demand, we plan to expand the Trans Mountain pipeline system to increase capacity for both light crude and mixtures of light and heavy crude. This will enable us to meet the growing transportation needs of producers who are expanding their markets to the west and offshore.

The first phase of the two-phase expansion will be operational in late 2004, depending on shipper and regulatory approval. This phase will involve reactivating an inactive loop between Darfield and Kamloops, "repowering" existing pump stations, and adding tankage. In phase two, new pump stations will be added, subject to shipper agreement. The two-phase expansion project will result in capacity increases of 45,000 barrels per day.

A two-phase expansion of the newly acquired Express system is also planned, and will result in a capacity increase of 108,000 barrels per day. This expansion will meet the increased demand for Canadian crude to offset local production declines in Rocky Mountain states of three to five per cent per year and allow further penetration of Canadian crude into the lower midwestern states.

We will be requesting shipper support for the first phase by the third quarter of 2003, with a projected in-service date in late 2004. The planned expansion would involve increasing pumping capacity at existing stations and adding new tankage at Hardisty, Alberta and Casper, Wyoming. In phase two, new pump stations would be added. Depending on shipper support, this phase will be completed in late 2006 or early 2007.

Projected Western Canadian Production



Source: National Energy Board
in millions

Proposed Bison Pipeline

The proposed Bison Pipeline is positioned to meet the needs of incremental production growth from the Athabasca Oil Sands and levers off the success of the Corridor project. Bison will transport heated bitumen – a hydrocarbon of high density and viscosity – from the Fort McMurray area to the pipeline hub in Edmonton. If it better suits the requirements of customers, the project could be developed as a more conventional diluted bitumen pipeline. We are working with a number of producers to quickly advance this project when market conditions are favourable.

Natural Gas Distribution

EXPANDED BASE BUSINESS – OUR STRATEGIC ACQUISITION OF CENTRA GAS IN 2002 EXPANDED OUR NATURAL GAS DISTRIBUTION BUSINESS IN BRITISH COLUMBIA. WE HAVE A NEW THREE-YEAR REGULATORY SETTLEMENT FOR CENTRA AND HAVE initiated a process to establish a multi-year incentive regulatory settlement for BC Gas Utility.

Island Cogeneration Project
In 2002, Centra Gas' system capacity was increased to supply the Island Cogeneration Project at Campbell River. Centra Gas operates high-pressure compressor stations and has strong transmission capabilities.

BUILDING OUR CUSTOMER BASE

In March 2002, we finalized our acquisition of Centra Gas British Columbia, enhancing our natural gas utility operations and significantly expanding our natural gas distribution service area in the province. This acquisition represents a natural fit with our existing business and brings a number of operational synergies. Centra's transmission system, for example, interconnects with our BC Gas Utility lines in the Lower Mainland.

With the addition of Centra, BC Gas now provides natural gas and piped propane service to 850,000 customers, representing 95 per cent of the province served by natural gas. Centra delivers natural gas to residential, commercial and industrial customers on Vancouver Island and the Sunshine Coast. One recent customer is the Island Cogeneration Project at Campbell River, which began operation in April 2002. There is considerable potential for development of additional gas-fired power plants and expanding natural gas consumption to meet electricity demand on Vancouver Island.

During the year, we successfully harmonized Centra's environment, health and safety programs, gas control and other support activities with our own, and in 2003 we will continue to pursue additional operational efficiencies.

A Logical Extension of Our Existing Operations
Centra increases our gas distribution asset base by 20 per cent and offers potential for further developing our natural gas customer base.

LEGEND

- BC Gas Utility and Centra Gas Transmission Pipelines
- Southern Crossing Pipeline Completed November 2000
- Proposed Inland Pacific Connector Pipeline
- Other Natural Gas Transmission Pipelines
- BC Gas Utility and Centra Gas Distribution Service Area

New BC Gas Bill

In 2002, BC Gas Utility started issuing its own bill to customers in the Lower Mainland. The new bill is helping to build name recognition and will also facilitate the move to unbundling as set out in the new provincial energy policy. The Company's bills were previously issued by BC Hydro.

PERFORMANCE-BASED REGULATION

A new three-year regulatory settlement — covering 2003 through 2005 — took effect for Centra on January 1, 2003, reconfirming the previous incentive-based agreement where both customers and Centra benefit from operating efficiencies. The settlement is in line with the move towards performance-based regulation outlined in the provincial government's new energy policy. In addition, the Centra settlement is also consistent with our preferred approach to regulatory agreements that are outcome-based — focused on competitive price and the quality of service delivered to customers.

Early in 2003, following a comprehensive public hearing, the British Columbia Utilities Commission (BCUC) approved a minimal increase in BC Gas Utility's delivery and basic charges that will add less than 1.5 per cent to a typical residential customer's bill or about $17 per year. The rate change took effect March 1, 2003 and applies only to delivery and basic charges and does not include the natural gas commodity. As part of the 2003 rate structure, BC Gas Utility's allowed return on equity was increased to 9.42 per cent from 9.13 per cent.

The BCUC has directed BC Gas Utility to develop a multi-year performance-based settlement proposal based on the approved rates for 2003. BC Gas Utility has operated under negotiated settlements and performance-based rates since 1993. The Utility is currently engaged in discussions with stakeholders and the BCUC to attain agreement on a multi-year settlement aligning both our interests and those of our customers.

In April 2003, new rates will take effect at BC Gas Utility for the natural gas commodity, reflecting higher costs for the fuel across North America. The cost of natural gas flows directly through to the customer without mark up.

Inland Pacific Connector

In 2002, we continued preliminary work on the Inland Pacific Connector, a 237-kilometre pipeline between Oliver in the South Okanagan and Huntingdon in the Fraser Valley. This proposed pipeline would increase natural gas supply to meet growing demand in British Columbia and the Pacific Northwest, while providing an alternative source of competitively priced gas supply to the region. In early 2003, we completed route selection, preliminary design and the first phase of the provincial environmental review process. We will advance this project further when market conditions warrant it.

Energy companies from British Columbia, Oregon and Washington State are working together to meet the growing need for residential, commercial and industrial gas supplies in the region, including electric generation capacity. A report issued in 2002 by a leading consulting firm identified the Pacific Northwest as one of two areas in Canada and the United States in need of capacity addition.

Over the past two years, we have continued work to complete all final aspects of the Southern Crossing Pipeline, which was placed in service — on-time and on-budget — in November 2000. As a result, at the end of 2002, restoration activities and commitments to regulators, landowners and other stakeholders were essentially complete.

STREAMLINED SERVICE FOR BUILDERS AND DEVELOPERS

Builders, developers and mechanical contractors account for roughly 60 per cent of new customers to our gas system. In a strategic move designed to make it easier and more convenient for this key customer segment to do business with us, BC Gas Utility launched a new system in January 2003.

Our new process and technology platform streamlines the natural gas connection process for these customers to more effectively meet their needs. We can now quickly access key information about existing customers, including details of previous development projects they've worked on. As a result, we can offer them faster hook-ups — saving builders and developers valuable time and making it easier for them to meet their demanding schedules.

New Energy Policy

On November 25, 2002, the Government of British Columbia released its new provincial energy policy, representing a move towards performance-based regulation. Amendments to the *Utilities Commission Act* in the spring of 2003 will mandate performance-based regulation and negotiation, an approach we have successfully worked under in recent years. The new policy also addresses the need for additional gas-fired power generation on Vancouver Island and directs BC Hydro to submit plans for the Island Generation Project to the BCUC.

Over the past several years, we have been working with the BCUC and other interested parties to explore providing residential and small commercial users with increased choice for their natural gas purchases. Contemplated amendments to the *Act* will allow direct natural gas sales – also known as unbundling – to low-volume customers who historically could only purchase their gas supply from gas utilities in B.C. We are working with stakeholders to ensure that unbundling proceeds in a manner that provides choice and adds value for customers.

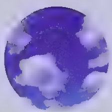
Helping our Customers Become More Energy Efficient

In 2002, we continued our efforts to promote energy efficiency amongst our commercial, industrial and residential customers. During the year, we partnered with Natural Resources Canada to offer customers a $300 credit toward the cost of upgrading their home heating system to an ENERGY STAR® rated high efficiency model. Participating suppliers offered an additional incentive of $150 or more, and approximately 2,800 customers took part in the program.

In 2002, 45,000 customers also took advantage of a BC Gas program offering a $25 rebate for tuning up their home heating system using a registered gas contractor. This successful rebate program builds on a similar initiative conducted in 2001 in which 28,000 customers participated.

These programs are part of our ongoing efforts to encourage customers to conserve natural gas. Not only do these programs help customers reduce their energy use and costs, they also promote efficient utilization of the natural gas system.

Energy and Utility Services



GROWTH ON TRACK – WE ARE PURSUING GROWTH OPPORTUNITIES THROUGH FOUR BUSINESSES THAT COMPLEMENT OUR STRENGTHS AND BUILD ON OUR CORE EXPERTISE. WHILE THESE EMERGING BUSINESSES REPRESENT A SMALL PORTION OF THE COMPANY'S ACTIVITIES, as they continue to evolve, they offer the potential for further expansion and sustained growth.

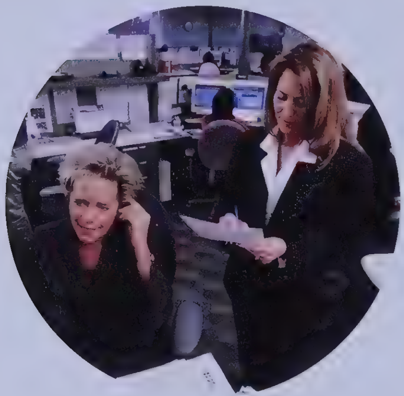
BCG SERVICES

A wholly owned subsidiary of BC Gas, BCG Services is a full-service provider and wholesale product distributor of water and wastewater treatment plants and distribution systems. In 2002, we continued to strengthen our market position by acquiring an Alberta-based operator of water treatment and distribution systems and by making a 25 per cent equity investment in another regional operator. These strategic investments add the operation of 40 water and wastewater treatment plants to our existing business and now make us the leading private-sector water utility in Western Canada.

In addition to expanding our water utility business through these investments, we also increased our sales of water services in 2002 and secured a number of longer-term contracts for meter installation, meter reading and related utility operations. Our three-year water meter reading project for the City of Surrey was successfully launched, along with the design and implementation of a voluntary water meter installation program. And we acquired a number of new projects – signing a two-year contract to supply and install an automatic meter reading system for the City of Regina and signing a contract with the Township of Ladysmith to supply and install water meters.

We were also recently awarded a contract with the City of North Vancouver to operate a district energy system for a new waterfront development, and we finalized a contract to provide gas, water, electricity, irrigation and geothermal energy services for the Sun Rivers Resort Community of Kamloops.

With our packaged approach to water services – including water meter installation and reading, customer relations, and water conservation programs and products – BCG Services has a distinct market advantage in providing comprehensive and cost-effective utility services. And we will continue to lead the way in expertly managing water systems for municipalities and districts throughout Western Canada.



Energy and Utility Services

Our energy and utility services businesses grew in 2002 – BCG Services entered into a number of new contracts, BC Gas International completed the third phase of a natural gas distribution system in the Arabian Gulf and made inroads with new clients in the region, CustomerWorks entered into a partnership with Accenture and ENRG significantly increased sales volumes of natural gas fuel.

BC GAS INTERNATIONAL

BC Gas International provides consulting and engineering services to clients in the gas distribution and transmission sectors in the Arabian Gulf and elsewhere. In 2002, we continued to focus on advancing our two major projects in the Gulf region.

In the United Arab Emirates, we completed the third phase of the Sharjah gas distribution project in November 2002, after completing the second phase in March 2002. All three phases were carried out in partnership with S.S. Lootah International, and to date the project has connected more than 60,000 customers with natural gas service in the City of Sharjah. In addition, we secured important natural gas feasibility projects for the Abu Dhabi National Oil Company.

In Oman, as part of a joint venture, we successfully completed the first year of a five-year project to operate the natural gas transmission facilities owned by the Oman Gas Company. The commissioning of two new pipelines during the year expanded the existing 800-kilometre transmission system by an additional 900 kilometres.

CUSTOMERWORKS

BC Gas owns 30 per cent of CustomerWorks Limited Partnership, the largest provider of comprehensive customer care services for utilities, municipalities and energy service companies in Canada.

In mid-2002, an agreement was made for Accenture to provide customer care services for CustomerWorks' 3.5 million utility customers across Canada. This arrangement is consistent with BC Gas' approach to minimizing risk associated with operating costs. Accenture's involvement offers the potential for CustomerWorks to extend its existing Canadian platform into the broader North American market.

ENRG

BC Gas owns 44 per cent of ENRG, the largest natural gas fueling company in North America, serving fleets in the taxi, waste removal, transit and airport industries. During the past year, ENRG expanded operations from the West Coast of North America to a number of key markets in the United States, including Texas, Colorado, Massachusetts and New York. ENRG now supplies fleets serving seven major airports in U.S. cities.

In 2002, the number of fueling stations was increased to 145 with construction of eight new stations and the acquisition of 69 existing stations. Sales volumes at existing stations grew more than 80 per cent over 2001. ENRG also entered a new market for LNG (liquefied natural gas) distribution and saw rapid growth in customer demand.

Growing from our Core Competencies

BCG Services – building the Company's multi-utility platform and supplying water and wastewater treatment utility services

BC Gas International – providing engineering and consulting services, primarily in the Arabian Gulf

CustomerWorks – offering comprehensive customer care services for utilities, municipalities and energy services companies (BC Gas owns 30 per cent of CustomerWorks LP)

ENRG – the largest natural gas fueling company in North America (BC Gas owns 44 per cent of ENRG)

Stewardship

INVESTING IN OUR COMMUNITIES – OUR FOCUS IS ON ADDING VALUE THROUGH SUSTAINABLE ECONOMIC PERFORMANCE AND INITIATIVES THAT enhance the environment and the social fabric of the communities where we operate.

NURTURING STRONG COMMUNITY RELATIONS

We believe in the importance of establishing and maintaining strong relationships with the municipalities we serve. Together, BC Gas Utility and Centra Gas serve 850,000 customers in more than 100 communities throughout British Columbia. With the addition of the Express Pipeline System, Terasen Pipelines now passes through hundreds of communities in the provinces of Alberta and British Columbia, as well as seven states in the northwestern and midwestern United States.

In our natural gas distribution business, community investment initiatives and the renewal of operating agreements continue to strengthen our relationships with municipalities. These initiatives create a positive business environment, positioning the Company to explore new business opportunities with local governments.

Members of our natural gas executive team continue to visit with key business and civic leaders in major communities throughout British Columbia. These visits provide an opportunity to meet face-to-face with community leaders and deepen our understanding of local needs. We are planning more of these visits in the year ahead as a way of strengthening our relationships with the communities we serve.

We are proud supporters of the United Way – an organization that truly benefits and strengthens the social fabric of our communities. In 2002, our United Way campaign was very successful, and BC Gas was recognized with an Exceptional Service Award for its outstanding financial and non-financial contributions. We exceeded our target, raising $335,345 in employee donations for the benefit of communities throughout BC Gas Utility's service area. Terasen Pipelines continued to have a high employee participation rate for the United Way, and Centra Gas' contribution in 2002 was the highest since 1998.

Habitat Restoration

Salmon habitat restoration is one of the key areas supported by the Company as part of its long-term commitment to preserve, protect and enhance the sensitive aquatic environment in its operating areas. For example, as a result of the Centra Gas Community Investment Program, there is now an increased likelihood of survival for thousands of salmonids in both Whistler and on the east coast of Vancouver Island. This program recently restored approximately 100 metres of habitat for up to 1,000 salmon fry at Treffrey Creek near Duncan.

Our Philosophy

At BC Gas, we strive to be a model of good corporate citizenship. We work hard to generate value for all stakeholders – by delivering good economic performance, being a respected corporate citizen, continually improving our safety and environmental performance and creating an environment where employees can best use their talents to achieve goals that benefit our customers and our Company.

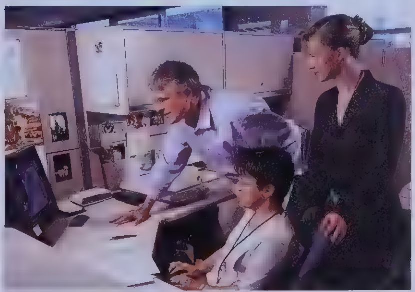
In 2002, we were recognized by several external organizations for our efforts.

BC Gas was ranked second in the world for gas utilities by the Dow Jones Sustainability World Index. Index rankings evaluate a company's corporate sustainability according to economic, environmental and social criteria.

BC Gas received the gold medal for the Utilities sector in the Corporate Knights "50 Best Corporate Citizens in Canada." We were ranked 8th out of the top 50 corporate citizens and placed third overall in the Employee Relations/Diversity category.

Canadian Business magazine recognized BC Gas' board of directors as the sixth best board in Canada.

We were also honoured to win the 2003 National Award in Governance from the Conference Board of Canada and Spencer Stuart. (See page 23.)



TAKING ADVANTAGE OF LOCAL TALENT

Our Southern Crossing Pipeline, completed in November 2000, and Corridor Pipeline, completed in November 2002, were both very successful projects, thanks to the broad involvement of local people who participated in all stages of development and construction.

As with the Corridor Pipeline, the proposed Bison Pipeline will pass through Metis communities and the traditional lands of First Nations in northern Alberta. Many members of these communities were employed in the construction of the Corridor Pipeline and we anticipate their active involvement in developing the proposed Bison Pipeline.

First Nations and Metis communities were also consulted as part of the public disclosure process for the Bison Project. Elders from Fort McKay First Nations and Fort McMurray First Nations (Gregoire Lake) assisted in the archeological assessment, alongside the project archeologists.

A Company-Wide Policy

All areas of our business operate under the same guiding principles. In 2002, Centra Gas adopted the health, safety and environment policy of BC Gas. This harmonized policy is ISO 14001 compliant with respect to our Environmental Management System. With the acquisition of the Express Pipeline System, we are now working to ensure that Express has the policies and procedures in place to comply with our company-wide health, safety and environment policy.

REDUCING GREENHOUSE GAS EMISSIONS

For the fourth consecutive year, BC Gas received gold level reporting status from the Voluntary Challenge and Registry (VCR) in recognition of our efforts to manage and reduce greenhouse gas emissions. The VCR ranking acknowledges our efforts to develop specific measures and voluntarily set reduction targets.

In the most recent reporting year, we reduced our operating emissions four per cent below 1990 levels. As well, our emissions per unit of natural gas delivered and emissions per customer were 3 per cent and 26 per cent, respectively, below what was achieved in 1990. These results were accomplished through operational efficiencies, equipment selection and offset project investment.

By combining internal measures and strategic investments in greenhouse gas offset projects, we are on target for achieving emission levels six per cent lower than those in 1990 for 2002 and beyond.

INCREASING THE SAFE AND EFFICIENT USE OF NATURAL GAS

In 2002, we continued our efforts to promote the safe use of natural gas and to encourage individuals to take action to prevent incidents. Along with the Greater Vancouver Fire Chiefs' Association, the Office of the Fire Commissioner and the Insurance Brokers Association of BC, we sponsored the publication and province-wide distribution of Fire and Life Safety brochures. We also printed Natural Gas Safety and Carbon Monoxide Safety brochures in Mandarin and Punjabi, and distributed them to communities through local newspapers.

Customer and public safety communications during the year continued to focus on gas odour awareness and response, appliance maintenance, 'Call Before You Dig' (BC 1 Call), and meter protection in heavy snowfall areas. We also expanded our use of radio advertising. With Lower Mainland residents now receiving a separate BC Gas bill, we are now able to take advantage of additional opportunities to distribute important and timely safety messages.

CONTINUALLY IMPROVING EMPLOYEE SAFETY

The safety of the public and our employees is paramount. In 2002, the severity rate of lost time injuries at BC Gas Utility was reduced by 75 per cent compared to 2001. This achievement results from focused supervisor and management training designed to enhance skills in the areas of labour relations and employee expectations, improved claims and disability management and an overall focus on prevention while supporting injured employees with early return-to-work opportunities.

These initiatives have also resulted in a 20 per cent reduction in lost time injuries as some employees who would previously have taken time off work due to an injury have been able to remain on the job.

Trans Mountain continued its strong employee safety performance, recording no lost time injuries in either 2001 or 2002.

CORRIDOR ACHIEVES RECORD SAFETY PERFORMANCE

We are proud of our safety record in constructing the Corridor Pipeline. By ensuring that all contractors met our strict standards and followed our safety program, we achieved unparalleled safety performance for the pipeline construction industry.

Corridor maintained its outstanding safety performance throughout the project's construction, reporting two lost-time incidents over the entire project's 2.5 million man-hours of work. This is one of the best safety records in Canadian pipeline construction history.

BC Gas Wins 2003 National Award in Governance

BC Gas' long-term commitment to enterprise risk management was recognized when we were named the overall winner of the Conference Board of Canada/Spencer Stuart 2003 National Awards in Governance.

The National Awards in Governance recognized the BC Gas Board of Directors for its enterprise risk management framework, developed in 1999. Our culture of risk management contributes to improved capital efficiency, reduced expenditures and informed decision-making – and generates consistently strong returns for investors. As part of its enterprise risk management program, the Board monitors associated policies and ensures that management effectively identifies, measures and responds to risks.

The National Awards in Governance honour one winner in each of the private, public and not-for-profit sectors. BC Gas was selected as both the private sector winner and the overall winner. More information about our corporate governance practices can be found on page 62.

Management's Discussion and Analysis

BC Gas' vision is to be a leading provider of energy transportation and utility asset management services. The Company creates shareholder and customer value by bringing a combination of operational excellence, financial excellence and focused business development to the provision of these services.

OPERATIONAL EXCELLENCE	FINANCIAL EXCELLENCE	FOCUSED BUSINESS DEVELOPMENT
STRONG REGULATORY RELATIONSHIPS	ACCESS TO LOW COST CAPITAL	GROW FROM CORE COMPETENCIES
ASSET AND RISK MANAGEMENT	RELIABLE CAPITAL MARKET ACCESS	NEW INFRASTRUCTURE PROJECTS
		SELECTIVE ACQUISITIONS

BC Gas Inc. continued to deliver on its financial targets and strategic plans in 2002. The acquisition of Centra Gas delivered positive results, construction of the Corridor Pipeline was completed on time and on budget, and the acquisition of a one-third interest in the Express Pipeline was announced. The Company also took steps in 2002 to strengthen its financial position through the issuance of new common equity.

This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes for the years ended December 31, 2002 and 2001.

VISION, CORE BUSINESSES AND STRATEGY

Vision

Operational Excellence
Given the regulated nature of BC Gas' core businesses, the Company can create value through incentive regulatory arrangements that allow BC Gas to share with customers the benefits of cost efficiencies and improved customer service. To capitalize on these opportunities, BC Gas is focused on achieving operational excellence through strong performance in cost management, customer satisfaction, safety and environmental responsibility.

Financial Excellence
BC Gas can also create value by matching infrastructure assets with the lowest possible cost of capital. BC Gas has in place a cost-efficient capital structure that maintains reliable access to capital markets. In addition, the Company has developed relationships with financial partners who can provide access to cost-effective pools of capital.

Focused Business Development
BC Gas can create value through the development of new infrastructure projects. This includes securing commitments from customers to reduce the risk profile of the investment, and managing construction risk to complete projects on time and on budget. Value can also be created through selective acquisitions, where the Company can reduce costs or increase revenues through integration with existing operations, and where a cost of capital reduction can be achieved. The Company can also create value by growing the non-regulated businesses that have been developed from BC Gas' core competencies.

Core Businesses

Natural Gas Distribution
BC Gas' natural gas distribution operations consist primarily of BC Gas Utility Ltd. ("BC Gas Utility") and Centra Gas British Columbia Inc. ("Centra Gas") in addition to several small related utility operations. BC Gas Utility is the largest distributor of natural gas in British Columbia, serving 774,000 customers in more than 100 communities. Major areas served by BC Gas Utility are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province. Centra Gas serves 76,000 customers on Vancouver Island and the Sunshine Coast area. BC Gas Utility and Centra Gas provide transmission and distribu-

tion services to their customers, and obtain gas supplies primarily on behalf of residential and commercial customers. Gas supplies are sourced primarily from northeastern British Columbia and, through BC Gas Utility's Southern Crossing Pipeline, from Alberta.

Petroleum Transportation

BC Gas' petroleum transportation operations include the Trans Mountain, Corridor, Express and Platte pipeline systems. Terasen Pipelines (Trans Mountain) Inc. ("Trans Mountain") transports crude oil and refined products from Edmonton, Alberta to Burnaby, British Columbia. Trans Mountain also delivers Canadian crude oil to several refineries in Washington State and owns a jet fuel pipeline to a storage system at Vancouver International Airport. Terasen Pipelines (Corridor) Inc. ("Corridor") owns a dual pipeline system which transports diluted bitumen and diluent between Fort McMurray and Edmonton, Alberta, and is currently being commissioned. Trans Mountain and Corridor changed their names in late 2002 and early 2003, respectively.

In addition, on January 9, 2003, BC Gas acquired a one-third interest in the Express Pipeline and the Platte Pipeline (collectively, the "Express System") which transport crude oil from Hardisty, Alberta to the Rocky Mountain region of the United States and on to Wood River, Illinois.

The Company operates the Trans Mountain and Corridor pipelines and the Express System under the Terasen Pipelines name.

Other Activities

The Other Activities segment includes non-regulated energy and utility businesses as well as corporate financing costs and administration charges. BC Gas owns 100% of BCG Services Inc., which provides water services, and BC Gas International, which is engaged in international consulting. BC Gas also owns 44.2% of ENRG, a natural gas vehicle fuel provider, and 30% of CustomerWorks LP, a provider of utility customer care services.

Strategy

BC Gas' core competencies are in the management and operation of infrastructure assets, in particular distribution utilities and petroleum pipelines.

Natural Gas Distribution

Through programs and activities designed to deliver operational excellence together with incentivized regulatory arrangements, BC Gas derives value from its natural gas transmission and distribution assets. The competencies applicable to natural gas distribution are also applicable to electricity distribution and water distribution. The Company's long-term objective is to capitalize on the synergies available by combining natural gas, electricity and water distribution assets into multi-utility operations. As part of this strategy, BC Gas pursues opportunities that arise to own and/or operate other distribution assets~~. An~~ example of this is the water supplies and services business of BCG Services, which is a key part of the Company's expertise and credibility in water distribution.

Petroleum Transportation

BC Gas' key strategic objective for its petroleum transportation business is to leverage its expertise in conjunction with the development of Alberta's oil sands. The growth of bitumen and synthetic crude oil production will require additional pipeline capacity, both to move production to the pipeline hubs in Alberta, and to move production from Alberta to downstream markets in Western Canada, the United States and offshore. BC Gas' initiatives in support of this strategy include expansion of the Trans Mountain and Express pipelines, construction of the Corridor Pipeline and future development of the Bison Pipeline. The value of existing pipeline assets is also being maximized through incentive regulation and activities designed to deliver operational excellence.

The Company's long-term objective is to capitalize on synergy opportunities by pursuing a multi-utility strategy.

BC Gas' strategic objective for its petroleum transportation business is to leverage its pipeline development and operational expertise in conjunction with the development of Alberta's oil sands.

When used in this report, the words "anticipate", "expect", "project", "believe", "estimate", "forecast" and similar expressions are intended to identify forward looking statements, which include statements relating to pending and proposed projects or possible acquisitions. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers and in the case of possible acquisitions, obtaining financing, acquiring assets or companies at an appropriate price and the ability to effect synergies in a timely and cost-effective manner.

KEY PERFORMANCE DRIVERS

Key performance drivers — those factors which are critical to successful execution of the Company's strategic plan — include:

- Appropriate regulatory arrangements
- Appropriate risk management and governance processes
- Efficient asset management processes
- Focused business development activities
- Ready access to capital markets

Regulatory Arrangements

Regulated businesses represented 96% of BC Gas' asset base at December 31, 2002. Accordingly, it is essential that BC Gas maintain good relationships with its various regulators. Appropriate, incentivized regulatory arrangements provide BC Gas' regulated businesses with an incentive to manage costs and improve service quality, resulting in a sharing of these benefits between customers and shareholders.

Regulation — BC Gas Utility

BC Gas Utility is regulated by the British Columbia Utilities Commission (the "BCUC"), which approves rates for services and issues certificates for the construction of major facilities.

Traditionally, rates have been set using the cost of service approach to utility regulation. Since 1996, however, incentive-based regulation has been used in the rate setting process in order to enhance value to customers and provide opportunities for enhanced returns to shareholders.

BC Gas Utility's rates are based on estimates of a number of items, such as natural gas sales, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place.

The two most significant deferral accounts relate to the risks of use per customer (the Revenue Stabilization Adjustment Mechanism, or "RSAM") and the cost of natural gas (the Gas Cost Reconciliation Account, or "GCRA"). Use per customer typically changes as a result of warmer or colder weather, or in response to changes in the price of natural gas. The cost of natural gas purchased by BC Gas Utility on behalf of its customers varies with changes in market prices for the commodity. These changes are deferred in the appropriate accounts and reflected in customer rates through quarterly rate adjustments. The recovery of balances in the RSAM and GCRA accounts requires the prior approval of the BCUC.

The RSAM and GCRA accounts reduce BC Gas Utility's earnings exposure to these risks by deferring any variances between projected and actual gas consumption and gas costs, and refunding or recovering those variances in rates in subsequent periods. Variances in usage by large volume, industrial transportation and sales services are not covered by these deferral accounts as their usage is more predictable and less likely to be significantly affected by weather.

Due to the recovery of balances in the RSAM and GCRA accounts in rates in 2002, the amount recoverable from customers under these deferral accounts decreased from $147.7 million as at December 31, 2001 to $76.7 million as at December 31, 2002.

In order to ensure that customer rates reflect market prices for natural gas, BC Gas Utility prepares quarterly calculations to determine whether customer rate adjustments are needed to reflect prevailing market prices for natural gas and ensure that balances in the GCRA account are recovered on a timely basis.

Short-term and long-term interest rate deferral accounts have also been in place to absorb interest rate fluctuations. As a result of the withdrawal of BC Gas Utility's 2002 Revenue Requirement Application (see 2002 and 2003 Revenue Requirement Applications below), the interest rate deferral accounts were not in effect during 2002. However, the interest rate deferral accounts are in place during 2003, which will effectively fix the interest expense on short-term funds attributable to BC Gas Utility's regulated assets at 4.0% during 2003.

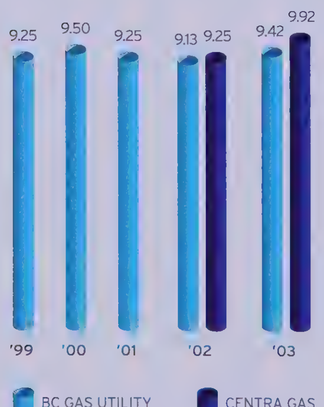
Allowed Return on Equity (ROE)

BC Gas Utility's allowed ROE is determined annually based on a formula that applies a risk premium to a forecast of long-term Government of Canada bond yields. For 2002, the application of the ROE formula would have set BC Gas Utility's allowed ROE at 9.13%, reflecting lower forecasted long-term bond yields

NATURAL GAS DISTRIBUTION

Allowed Return on Equity

(per cent)



Allowed returns in 2003 increased due to higher bond yields and a regulatory settlement for Centra Gas.

compared to the 2001 ROE calculation. However, the withdrawal of BC Gas Utility's 2002 Revenue Requirement Application meant that the ROE formula was not applied to BC Gas Utility's 2002 rates. For 2003, BC Gas Utility's ROE was set at 9.42%, reflecting higher forecasted long-term bond yields compared to the 2002 ROE calculation that would have been applied.

1998–2001 Revenue Requirement Settlement

In June 1997, BC Gas Utility and other interested parties reached a negotiated settlement to set the revenue requirements for BC Gas Utility for the years 1998–2000, which was approved by the BCUC on July 23, 1997. The settlement incorporated a variety of incentives for productivity, demand side management activities, capital expenditure efficiency and gas supply cost management. During 2000, BC Gas negotiated a one-year extension of the 1998–2000 settlement with customer representatives and other stakeholders.

2002 and 2003 Revenue Requirement Applications

During 2001, a 2002 Revenue Requirement Application was filed as the first step in developing a renewed incentive regulatory arrangement. Because of the acquisition of Centra Gas and the ongoing development of a provincial energy policy, BC Gas Utility, with the support of a number of customer representatives, withdrew its 2002 Revenue Requirement Application. As a result of the withdrawal, BC Gas Utility's distribution rates remained at 2001 levels during 2002, and the GCRA and RSAM deferral accounts remained in effect.

In June 2002, a 2003 Revenue Requirement Application was filed. A hearing on the 2003 Application was held in November 2002, and the BCUC issued its decision on February 4, 2003. The decision established revenue requirements for 2003, which will form the basis for negotiations on a new incentive regulatory arrangement. BC Gas Utility intends to work with stakeholders during 2003 to develop such a multi-year incentive regulatory arrangement.

Natural Gas Commodity Unbundling

Over the past several years, BC Gas Utility, the BCUC and a number of interested parties have been exploring options to provide increased customer choice to residential and smaller commercial users for their natural gas commodity purchases. Currently, these customers can only purchase their gas supplies from BC Gas Utility. BC Gas Utility is working with stakeholders to ensure that unbundling proceeds in a manner that adds value for customers without exposing either BC Gas Utility or its customers to undue risk. The Company does not anticipate that the introduction of these arrangements will have a material impact on the Company's financial results.

Regulation — Centra Gas

Centra Gas is also regulated by the BCUC. In 1995, an agreement was entered into between Centra Gas and the Province of British Columbia ("the Province"), which included a Special Direction that was issued to the BCUC. The agreement, which expires no sooner than 2011, includes the following terms:

- Certain customers were charged rates that were lower than Centra Gas' full cost of service, based on a discount to the prices of electricity and oil. These preferential rates ended on December 31, 2002.
- Other customers were charged rates that have escalated for inflation and do reflect current natural gas costs, but remained lower than the full cost of service. These rates also ended on December 31, 2002.
- Centra Gas receives, for the benefit of customers, an annual payment until 2011 from the Province based on the wellhead price of natural gas in B.C. This payment amounted to $18.2 million in 2002.
- The revenue deficiency resulting from overall revenues being below the cost of service has been recorded in a revenue deficiency deferral account (the "RDDA"). The accumulated RDDA recorded on BC Gas' consolidated financial statements totaled $65.1 million at December 31, 2002. Because of the long-term nature of this deferral account, the RDDA balance was recorded on BC Gas' consolidated financial statements at its estimated present value when Centra Gas was acquired in 2002. BC Gas is committed to fund these revenue deficiencies by purchasing preferred shares or subordinated debt issued by Centra Gas. The BCUC

has been directed to set rates beginning in 2003 that amortize the RDDA balance over the shortest period reasonably possible, having regard for Centra Gas' competitive position relative to alternative energy sources and the desirability of reasonable rates. As a result, the Company expects that the RDDA balance will begin to decline in 2003.

- Centra Gas' deemed equity component was set at 35%. Until December 31, 2002, the allowed return on equity was set using a formula that resulted in an ROE that was 0.125% higher than the allowed ROE for BC Gas Utility.
- Any variances in the achieved ROE in a particular year from the allowed ROE (other than variances resulting from operation and maintenance costs) were deferred and recorded in the RDDA. Operation and maintenance costs are subject to an incentive mechanism.

In 2002, a new regulatory settlement was negotiated with stakeholders, and BCUC approval was received in January 2003. The new three-year settlement takes effect January 1, 2003. It provides for a continuation of the operation and maintenance cost incentive arrangements previously in place, and increases the allowed ROE for Centra Gas to a rate that is 0.50% higher than the allowed ROE for BC Gas Utility, which equates to 9.92% for 2003.

Regulation — Trans Mountain

The National Energy Board (the "NEB") regulates the Canadian portion of Trans Mountain's crude oil and refined products pipeline system. The NEB authorizes pipeline construction and establishes tolls and conditions of service. Prior to 1996, tolls were set using the historical cost of service methodology.

In November 2000, Trans Mountain and shipper representatives reached a negotiated agreement to determine Trans Mountain's tolls for the period 2001–2005. This Incentive Toll Settlement ("ITS") was approved by the NEB on March 22, 2001 to take effect as of January 1, 2001.

The 2001–2005 ITS fixes tolls on Trans Mountain's Canadian mainline for the term of the settlement as long as throughput remains within a band of 28,500 to 32,000 cubic metres per day (m^3/day). Tolls have been set using a base throughput level of 30,000 m^3/day. Any revenue shortfalls arising from annual throughput levels below 28,500 m^3/day are recovered from the shippers. Incremental revenues arising from annual throughput above 32,000 m^3/day are shared 50/50 between Trans Mountain and the shippers. The fixed tolls do not escalate with inflation unless Canadian inflation rates increase above 3.5%. Trans Mountain keeps all of the benefits achieved through productivity initiatives and operating efficiencies.

The 2001–2005 ITS also provides for two incentive tolls which provide toll reductions for specified types of shipments on Trans Mountain's pipeline system. The incentive tolls apply to export volumes of oil loaded over the Westridge Dock in Vancouver harbour and to movements of an alkylate material which is expected to replace methyl tertiary butyl ether ("MTBE").

The toll charged for the U.S. portion of Trans Mountain's pipeline in Washington State falls under the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). Regulation by the FERC is on a complaint basis. There were no complaints in 2002.

Regulation — Corridor

As an intra-provincial pipeline system, Corridor is subject to the jurisdiction of the Alberta Energy and Utilities Board (the "AEUB"). With respect to Corridor, matters such as rates of return, construction and operation of facilities and tolls are governed by contractual arrangements with shippers and are subject to regulation by the AEUB.

The Firm Service Agreement ("FSA") between Corridor and its shippers sets pipeline tolls based on cost of service mechanisms. Shell Canada Limited, Chevron Canada Resources Limited and Western Oil Sands Inc. have entered into long-term ship-or-pay contracts for all of the available capacity on the Corridor pipeline. The estimated completion cost (or rate base) for Corridor is approximately $700 million. Revenues under the FSA and commercial operations will commence on the first day of the month following the date production volumes are first transported from the Scotford Upgrader to Edmonton on the Corridor pipeline system, but no later than June 1, 2003.

Trans Mountain is the only pipeline connecting Alberta petroleum production with the West Coast of North America.

Regulation — Express System

The Canadian segment of the Express Pipeline is regulated by the NEB, with tolls being regulated on a complaint basis only. The Platte Pipeline and the U.S. segment of the Express Pipeline are regulated by the FERC, with tolls also being regulated on a complaint basis. The Wyoming Public Service Commission (the "WPSC") regulates the transportation of petroleum on the Platte Pipeline within the State of Wyoming. The WPSC standards applicable to tolls are similar to those of the FERC and the NEB.

Approximately 67% of the current capacity on the Express System is subject to long-term contracts expiring in 2007 and 2012. These contracts provide for committed tolls for transportation on the Express System, which can be increased each year by up to 2%. The remaining capacity is made available to shippers as uncommitted capacity. FERC regulations set ceiling tolls that can be charged for uncommitted capacity. The tolls charged by the Express System for uncommitted capacity are lower than the FERC ceiling tolls, as they have been set at levels that maintain the Express System's competitiveness relative to alternative pipelines.

Risk Management and Governance

In order to ensure that operating and financial results meet customer, regulatory and shareholder expectations, an effective system of risk management and governance is essential. BC Gas has an Enterprise Risk Management system across the organization that ensures that significant business risks are identified, evaluated and appropriately managed and monitored.

BC Gas' corporate governance practices are described more fully in BC Gas' management proxy circular in connection with the 2003 annual shareholders' meeting. BC Gas' efforts in corporate governance have been recognized by *Canadian Business* magazine, which ranked BC Gas sixth in Canada among publicly traded companies, and by the Conference Board of Canada, which recently gave BC Gas a national award for excellence in risk management and corporate governance.

Asset Management

Appropriate regulatory arrangements provide incentives to manage costs and improve service quality. Once these opportunities are available, asset management skills are key to capitalizing on these incentives. The focus of asset management is to ensure reliable, cost effective, quality service with full regard for the safety of employees and customers and protection of the environment.

The 1998–2001 incentive regulatory settlement for BC Gas Utility included productivity targets that were exceeded throughout the term of the settlement. An independent analysis of operating costs found that BC Gas Utility was the best performer among ten Canadian gas distribution utilities by the measures of customers per employee and operating costs per customer. BC Gas' petroleum transportation business has also taken steps to reduce operating costs under Trans Mountain's new Incentive Toll Settlement.

In order to sustain incentivized regulatory arrangements, cost management must be paired with consistent or improving service quality. In January 2003, BC Gas Utility implemented a new Order Fulfillment System to streamline the natural gas connection process for builders, developers and mechanical contractors.

Environmental and safety management is a key aspect of effective asset management. BC Gas has established programs to use resources more efficiently and effectively, including a greenhouse gas management program, industrial waste recycling and salvage shop operations. BC Gas Utility received a leadership award in 2002 from Canada's Climate Change Voluntary Challenge and Registry. As well, an independent third party ranked BC Gas second in the world among gas distribution utilities for sustainability performance in 2002.

BC Gas has detailed emergency preparedness plans in place to respond to accidents or emergencies, and regularly tests these plans in simulations involving employees and other emergency response organizations. The Company is also committed to monitor and assess its safety and environmental performance regularly. BC Gas incorporates safety and environmental performance measures into its employee compensation system, sets targets and objectives for environmental performance and conducts independent safety and environmental audits.

Consistent levels of service are key to sustaining incentive-based regulatory arrangements.

The natural gas distribution and petroleum transportation businesses maintain comprehensive facility risk assessment and pipeline integrity management programs as preventive measures to mitigate the risk of a pipeline failure or other loss of system integrity. These programs are intended to reduce both the likelihood and severity of the business interruption and/or environmental liability that could result from a pipeline failure or loss of integrity.

Business and Project Development

BC Gas' success in business and project development is dependent on a number of key skills and competencies. In order to increase usage of existing assets and to secure shipper commitments for new pipeline projects, marketing capabilities are increasingly important to the Company. During 2002, Terasen Pipelines increased its focus on this area by creating a new position of Vice President, Business Development, and recruited an experienced petroleum marketer to a new Vice President, Marketing position.

The nature of BC Gas' core businesses requires that regulatory and political relationships be carefully managed in order to minimize risk and enhance political and regulatory support for new business initiatives. BC Gas has a Senior Vice President, Legal and Government Affairs, who is responsible for managing these relationships.

The risks associated with new construction projects require that the Company retain strong project management capabilities. The construction of the Southern Crossing and Corridor pipelines on time and on budget have demonstrated BC Gas' project management skills, which will continue to be applied to new infrastructure construction opportunities. A key aspect of construction project management for BC Gas is ensuring that contractors are responsible for risks that can be best managed by the contractors.

On-time and on-budget construction of the Southern Crossing and Corridor pipelines demonstrate BC Gas' project management skills.

In addition, the ability to successfully integrate new acquisitions into BC Gas' existing asset base will have a significant impact on the Company's ability to create value through the acquisition of complementary infrastructure assets.

Access to Capital

In order to meet the capital investment and return requirements of its businesses, BC Gas must have reliable access to cost-effective capital. The Company's requirements for capital and access to capital are discussed more fully under Liquidity and Capital Resources.

The development of income-oriented investment vehicles, such as income trusts, has lowered the cost of capital for certain companies and increased the prices that can be paid in acquisitions of certain infrastructure assets. In some circumstances, a corporate financing structure such as BC Gas' stand-alone structure is unable to achieve a cost of capital that is as low as these alternative structures. In order to remain competitive in the pursuit of certain acquisitions, it is necessary for BC Gas to develop alternative structures that deliver a lower cost of capital.

An example of such an alternative structure is the consortium formed by BC Gas to acquire the Express System. BC Gas and two major Canadian pension funds each own an equal interest in the Express System. Because of their financial resources and circumstances, the pension funds are able to access cost-effective capital given an appropriate structure. The structure developed by BC Gas results in a pairing of the pension funds' financial capabilities with BC Gas' operating capabilities, while delivering attractive overall returns to BC Gas on its investment.

CAPABILITY TO DELIVER RESULTS

Liquidity and Capital Resources

During 2002, BC Gas significantly improved its financial strength through the issuance of new common equity, which was used to finance new acquisitions and to reduce debt levels. Although BC Gas' business risk profile did not change significantly, the decision to reduce consolidated debt levels was made in response to changes in the external environment for pipelines and utilities. The financial difficulties faced recently by some U.S. integrated energy companies have resulted in greater scrutiny of pipeline and utility capital structures, particularly in Canada, where deemed capital structures set by Canadian regulators typically have higher debt levels than U.S. utilities. BC Gas responded proactively to these issues by reducing the percentage of debt in its capital structure, in order to achieve continued reliable access to capital markets.

Capital Expenditures

Capital expenditures totaled $395.7 million in 2002 compared with $469.8 million in 2001. The $74.1 million decrease in capital spending was due mainly to higher expenditures in 2001 on the Corridor Pipeline project.

Actual capital spending in 2002 and forecast capital spending in 2003 is summarized as follows:

Capital Expenditures *In millions of dollars*	*2002 Actual*	*2003 Forecast*
Natural gas distribution		
BC Gas Utility	$ 111.1	$ 114.1
Centra Gas	19.1	20.7
	130.2	134.8
Petroleum transportation		
Trans Mountain	21.3	34.0
Corridor Pipeline	225.0	43.0
	246.3	77.0
Other activities	19.2	13.1
Total	$ 395.7	$ 224.9

Projected Capital Expenditures

BC Gas has estimated total 2003 consolidated capital expenditures of $224.9 million. The Company expects to finance capital expenditures with a combination of long-term debt, short-term borrowings, internally generated funds and the proceeds from the common equity financing in December 2002.

BC Gas expects that any 2003 capital expenditures on the Express System will be funded by cash flow generated by the Express System.

Coverage Ratios

Due to the capital-intensive nature of the Company's businesses and the need to raise debt frequently in the fixed income market, maintenance of its financial ratios is a priority for BC Gas. The most significant ratios are considered to be interest coverage and debt as a percentage of total capital. These are presented below on a consolidated basis for BC Gas, BC Gas Utility and Trans Mountain. Coverage ratios for Corridor are not meaningful while the pipeline is under construction.

Financial Ratios	2002	2001
Interest coverage		
BC Gas	**2.1**	2.0
BC Gas Utility	**2.0**	1.9
Trans Mountain	**6.3**	4.8
Debt to total capital		
BC Gas	**66%**	75%
BC Gas Utility	**68%**	68%
Trans Mountain	**42%**	51%

Interest coverage for BC Gas and BC Gas Utility improved in 2002 compared to 2001, mainly as a result of lower interest rates.

Debt to total capital for BC Gas decreased in 2002 compared to 2001 as a result of common equity issued during 2002 to finance the completion of the Corridor Pipeline, the acquisitions of Centra Gas and the Company's one-third interest in the Express System, and to repay long-term debt. If the Express System acquisition had closed prior to December 31, 2002, instead of on January 9, 2003, debt to total capital for BC Gas would have been approximately 68% at December 31, 2002. BC Gas' target debt level as a percentage of total capital is 67%.

Interest coverage and debt to total capital for Trans Mountain improved partly as a result of lower debt levels. Trans Mountain's debt levels are expected to return to more normal levels in 2003 following the payment of a special dividend to BC Gas. Trans Mountain's interest coverage also benefited from lower interest rates.

Credit Ratings

Securities issued by BC Gas, BC Gas Utility, Trans Mountain and Corridor are rated by three credit rating agencies: DBRS Inc. ("DBRS"), Moody's Investors Service Inc. ("Moody's") and Standard & Poor's, a division of The McGraw-Hill Companies ("S&P"). The ratings assigned to securities issued by the BC Gas group of companies are reviewed by these agencies on an ongoing basis.

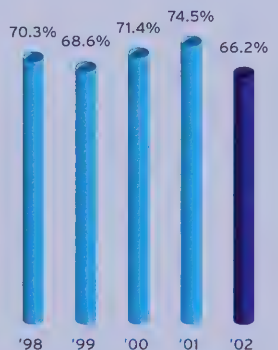
CONSOLIDATED CAPITAL EXPENDITURES

BC Gas Inc.
($ millions)

Capital expenditures are expected to decline following the completion of the Southern Crossing and Corridor pipeline projects.

DEBT TO TOTAL CAPITAL

BC Gas Inc.
(per cent)



During 2002, BC Gas significantly improved its financial strength by issuing new common equity.

The table below summarizes the ratings assigned to the Company's various securities at December 31, 2002.

Credit Ratings	DBRS	Moody's	S&P
BC Gas			
Commercial paper	R-1 (Low)		A-1 (Low)
Unsecured long-term debt	A (Low)	A3	BBB
Capital securities	BBB (High)	Baa1	BBB-
BC Gas Utility			
Commercial paper	R-1 (Low)		A-1 (Low)
Unsecured long-term debt	A	A2	BBB+
Secured long-term debt	A	A1	A-
Trans Mountain			
Commercial paper	R-1 (Low)		A-1 (Low)
Unsecured long-term debt	A (Low)		BBB+
Corridor			
Commercial paper	R-1 (Low)		A-1 (Low)

In November 2002, S&P and Moody's placed BC Gas' credit ratings on Credit Watch with negative implications and Under Review with negative implications, respectively. Moody's reaffirmed BC Gas' credit ratings in January 2003. S&P's ratings remained on Credit Watch as at February 3, 2003.

Public Issues

During 2001, BC Gas Utility issued $100 million of medium term note debentures at an interest rate of 6.15%, and BC Gas issued $200 million of medium term note debentures at an interest rate of 6.30%. There were no new debenture issues during 2002.

In March 2002, 5,208,000 Subscription Receipts which had been issued in November 2001 for gross proceeds of $188.3 million were converted into an equal number of common shares of BC Gas. In addition, a total of 7,931,600 common shares were issued in December 2002 in concurrent public and private placements for gross proceeds of $301.4 million.

Lines of Credit

At December 31, 2002, the Company had lines of credit in place totaling $1,734 million to finance cash requirements, comprising $200 million at BC Gas, $500 million at BC Gas Utility, $224 million at Centra Gas, $110 million at Trans Mountain and $700 million at Corridor. These lines enable the respective companies to borrow directly from their bankers, issue bankers' acceptances and support commercial paper issued by each company. Bank lines of $583 million were unutilized at the end of 2002. Virtually all short-term cash needs are funded through commercial paper and bankers' acceptances in the Canadian market at rates generally below bank prime.

Human Resources

Collective Agreements

The renewal of a collective agreement between BC Gas Utility and employees represented by the Office and Professional Employees International Union (Local 378) was concluded in the second quarter of 2002. The new agreement expires on March 31, 2007. The collective agreement in force between BC Gas Utility and the International Brotherhood of Electrical Workers (Local 213) expires on March 31, 2006.

Centra Gas has three collective agreements with the International Brotherhood of Electrical Workers (Local 213). One (covering employees in Victoria) expires on March 31, 2003 and the other two (covering employees on northern Vancouver Island and Whistler) expire on December 31, 2003.

Succession Planning

To ensure the Company is developing the talent and skills needed to meet the challenges of the future, in 2002 the BC Gas group of companies expanded and enhanced a succession planning process. The plan covers approximately 40 senior or key positions and includes an assessment of strengths and gaps in the various organizational units, and the identification of potential successors for key positions and high potential candidates for longer-term develop-

ment. In 2003, a number of high potential individuals will participate in a new focused leadership development program. This is intended to be part of our ongoing succession process which is updated and enhanced each year.

RESULTS

Earnings Performance

The contribution to earnings applicable to common shares of each segment is as follows:

Years ended December 31 *(In millions of dollars except per share amount)*	**2002**	**Per Share**	2001	Per Share
Natural gas distribution				
BC Gas Utility	**$ 69.5**	**$ 1.61**	$ 67.8	$ 1.77
Centra Gas	**22.9**	**0.53**	–	–
	92.4	**2.14**	67.8	1.77
Petroleum transportation	**29.3**	**0.68**	27.3	0.71
Other activities	**(15.9)**	**(0.37)**	(10.5)	(0.27)
Earnings applicable to common shares	**$ 105.8**	**$ 2.45**	$ 84.6	$ 2.21

BC Gas discloses earnings before non-recurring items in order to assist investors in evaluating which components of the Company's earnings are likely to be sustainable in future years. For this purpose, the Company identifies non-recurring items, which are material gains and losses that, in management's opinion, arise from events or circumstances that are not expected to occur on a regular basis. Earnings before non-recurring items does not have any standardized meaning prescribed by generally accepted accounting principles, and therefore may not be comparable to similar measures presented by other Canadian issuers of securities. There were no material non-recurring items in 2002 and 2001.

Earnings applicable to common shares were $105.8 million in 2002 compared to $84.6 million in 2001. An analysis of the increase in earnings is as follows:

In millions of dollars	
Earnings applicable to common shares for 2001	$ 84.6
Natural gas distribution	
Earnings from the acquisition of Centra Gas	22.9
Reduced financing costs	13.6
Other items	(11.9)
Petroleum transportation	
Lower financing costs and income tax rates	7.2
Lower throughput and other items	(5.2)
Other activities	
Improved operating results from non-regulated businesses and other items	3.4
Financing costs associated with the acquisition of Centra Gas	(4.7)
Write-down of investment in Westport Innovations Inc.	(4.1)
Earnings applicable to common shares for 2002	$ 105.8

Financial Objectives

BC Gas' primary financial objectives are to provide shareholders with consistent and growing dividends and to reinvest earnings not paid out as dividends at rates of return that will deliver annual earnings per share growth of 6% or more on a consistent basis. During 2002, dividends paid per common share were $1.41 per share, up 8.5% from $1.30 per share in 2001. Earnings per share grew 10.9%, from $2.21 in 2001 to $2.45 in 2002. Over the past five years, dividends per share and earnings per share before non-recurring items have grown at compound annual rates of 7.6% and 8.5%, respectively.

EARNINGS PER SHARE

BC Gas Inc.
(dollars)

Earnings per share before non-recurring items were $2.45 in 2002, up 10.9 per cent from 2001.

DIVIDENDS PAID PER SHARE

BC Gas Inc.
(dollars)

Since 1998, dividends per share have grown by 29 per cent.

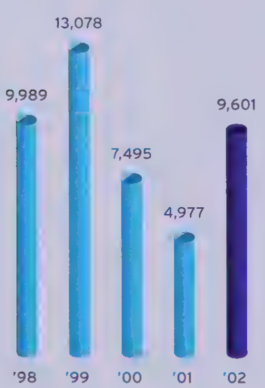
NATURAL GAS DISTRIBUTION

Earnings before Income Taxes
($ millions)

Earnings in 2002 increased as a result of the acquisition of Centra Gas and reduced financing costs for BC Gas Utility.

NATURAL GAS DISTRIBUTION

Customer Additions



Customer additions increased in 2002 as a result of the Centra Gas acquisition and improved economic conditions.

Natural Gas Distribution

In millions of dollars	2002	2001
Revenues	**$ 1,402.7**	$ 1,420.3
Operating expenses		
Cost of natural gas	**807.2**	931.8
Operation and maintenance	**179.3**	136.3
Depreciation and amortization	**92.6**	75.7
Property and other taxes	**46.9**	41.9
	1,126.0	1,185.7
Operating income	**276.7**	234.6
Financing costs	**136.8**	126.1
Earnings before income taxes	**$ 139.9**	$ 108.5

Revenues from natural gas distribution decreased to $1,402.7 million during 2002 from $1,420.3 million in 2001. Revenues are set at levels designed to recover the cost of delivery service of BC Gas Utility and Centra Gas, together with the cost of the natural gas commodity. In 2002, revenues were lower primarily as a result of a decrease in the cost of natural gas, offset by the revenues of Centra Gas, which was acquired effective January 1, 2002.

BC Gas Utility and Centra Gas net customer additions during 2002 were 9,601, bringing the total number of gas utility customers to 850,699 at year-end. These customer additions were mainly in the heating market for on-main conversions and new construction of single-family houses. The rate of customer additions increased from 2001, when 4,977 net new customers were added, as a result of the acquisition of Centra Gas and improved economic conditions.

BC Gas Utility industrial sales volumes decreased by 1,451 terajoules while transportation volumes increased by 7,981 terajoules from the previous year. BC Gas Utility earns approximately the same margin regardless of whether a customer contracts for sales or transportation service. The net increase in industrial volumes reflected a recovery from low volumes in 2001 that resulted from fuel switching by industrial customers who have dual-fuel capability as well as reduced energy consumption as market prices for natural gas peaked in early 2001.

The cost of natural gas amounted to $807.2 million in 2002 compared with $931.8 million in 2001. This change was due to a decrease in the price of natural gas, which was flowed through into customer rates, offset in part by natural gas costs of Centra Gas.

Operation and maintenance expenses increased to $179.3 million in 2002 from $136.3 million in 2001. This increase was primarily a result of the acquisition of Centra Gas, the outsourcing of BC Gas Utility customer care functions to CustomerWorks and the sale and lease-back of certain BC Gas Utility distribution assets in the City of Kelowna in 2001. The outsourcing and leasing transactions resulted in a corresponding reduction in capital-related costs, such as depreciation and financing costs.

The acquisition of Centra Gas and increased investment in gas plant in service, offset in part by the outsourcing and leasing transactions noted above, resulted in depreciation and amortization expense rising to $92.6 million in 2002 from $75.7 million in 2001. The Centra Gas acquisition, offset by lower provincial capital tax rates, resulted in property and other taxes increasing by $5.0 million to $46.9 million in 2002.

Financing costs increased to $136.8 million in 2002 from $126.1 million in the previous year as a result of the acquisition of Centra Gas, offset in part by lower interest rates and the outsourcing and leasing transactions noted above.

Petroleum Transportation

In millions of dollars	**2002**	2001
Revenues	**$ 136.0**	$ 143.1
Operating expenses		
Operation and maintenance	**43.8**	46.5
Depreciation and amortization	**17.1**	16.4
Property and other taxes	**18.7**	18.6
	79.6	81.5
Operating income	**56.4**	61.6
Financing costs	**9.5**	13.5
Earnings before income taxes	**$ 46.9**	$ 48.1

Revenues from petroleum transportation operations decreased to $136.0 million in 2002 from $143.1 million in 2001 as a result of lower Canadian and U.S. delivery volumes in 2002 compared to 2001. Trans Mountain's Canadian mainline deliveries averaged 31,986 m^3/day in 2002 compared to 33,270 m^3/day in 2001. U.S. mainline deliveries averaged 7,607 m^3/day in 2002 compared to 11,671 m^3/day in 2001. Throughput levels on the U.S. mainline declined from the strong levels experienced in 2001 as a result of reduced utilization of Canadian feedstock by Washington State refineries and lower refinery run levels.

The impact of lower U.S. deliveries on Canadian mainline throughput was mitigated by significantly higher deliveries for export over Trans Mountain's dock in Vancouver harbour.

As discussed previously under Regulation, Trans Mountain's Canadian mainline is subject to a regulatory settlement that mitigates the impact of variations in throughput volumes on earnings. However, Trans Mountain's U.S. pipeline in Washington State and the Express System are not subject to the same regulatory arrangements, and fluctuations in throughput on these pipelines will have a direct impact on petroleum transportation revenues and earnings.

Operation and maintenance expenses decreased from $46.5 million in 2001 to $43.8 million in 2002 as a result of a reduction in operating costs achieved through a restructuring undertaken by Trans Mountain and reduced pipeline maintenance costs in 2002.

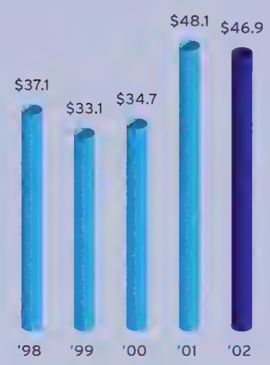
Financing costs in 2002 were $9.5 million, compared to $13.5 million in 2001 as a result of lower interest rates and the refinancing of maturing long-term debt with lower cost debt.

Other Activities

In millions of dollars	**2002**	2001
Revenues	**$ 168.5**	$ 102.9
Operating expenses		
Operation and maintenance	**66.2**	29.2
Depreciation and amortization	**5.9**	3.0
Property and other taxes	**0.5**	0.3
Cost of revenues	**92.5**	71.4
	165.1	103.9
Operating income (loss)	**3.4**	(1.0)
Financing costs	**14.5**	8.7
Loss before income taxes	**$ (11.1)**	$ (9.7)

PETROLEUM TRANSPORTATION

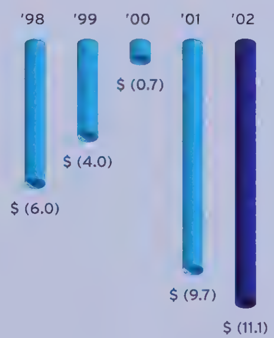
Earnings before Income Taxes
($ millions)



Earnings before income taxes decreased in 2002 as a result of lower Canadian and U.S. delivery volumes, offset by lower financing costs.

OTHER ACTIVITIES

Loss before Income Taxes
($ millions)



Results in 2002 reflected financing costs associated with the Centra Gas acquisition, offset by improved operating results from BC Gas' energy and utility services businesses.

Losses from other activities in 2002 were $11.1 million before income taxes compared with a loss of $9.7 million in 2001.

Revenues increased from $102.9 million in 2001 to $168.5 million in 2002. This increase was due mainly to the launch of CustomerWorks in 2002 and a 2001 acquisition in ENRG, the Company's alternative vehicle fuel business. Cost of revenues increased by $21.1 million as a result of growth in ENRG and a $4.9 million before-tax ($4.1 million after-tax) writedown of the Company's investment in Westport Innovations Inc.

Operation and maintenance expenses increased $37.0 million to $66.2 million in 2002 as a result of the launch of CustomerWorks in 2002 and growth in ENRG. Depreciation and amortization and property and other taxes increased in 2002 for the same reasons. Financing costs increased by $5.8 million from 2001 to $14.5 million in 2002 as a result of increased debt outstanding to fund the acquisition of Centra Gas.

Consolidated Cash Flow

Cash flow from operating activities increased to $318.1 million in 2002 from $59.8 million in 2001. The cash flow from operating activities during 2001 was impacted by a significant reduction in accounts payable, which had unusually large balances at December 31, 2000 relating to payables for the Southern Crossing project and natural gas purchased during December, 2000. Cash flow in 2002 was also higher as a result of higher net earnings after adjustments for non-cash items and a $66.9 million decrease in rate stabilization account balances.

Business Development

Acquisition of Express Pipeline

On January 9, 2003 a consortium including BC Gas, Borealis Infrastructure Management Inc., and Ontario Teachers' Pension Plan acquired the Express System from EnCana Corporation. The purchase price was approximately $1,175 million, including assumed debt of approximately $582 million, subject to closing and post-closing adjustments. BC Gas' share of the equity portion of the purchase price was approximately $198 million before adjustments. Each of the three consortium members owns an equal interest in the Express System. Terasen Pipelines operates the Express System on behalf of the consortium.

A marketing agreement has been entered into with EnCana Corporation whereby EnCana will provide marketing services for the Express System.

Acquisition of Centra Gas

Effective January 1, 2002 the Company acquired all of the outstanding shares and inter-corporate debt of Centra Gas British Columbia Inc. and Centra Gas Whistler Inc. from Westcoast Energy Inc. The terms of the acquisition are detailed in Note 1 to the consolidated financial statements.

Bison Pipeline Project

Terasen Pipelines (Bison) Inc., a wholly-owned subsidiary of the Company, has proposed an $800 million, 516 km pipeline to transport bitumen from the Athabasca oil sands to the Edmonton area. The project is subject to regulatory approvals and the execution of definitive transportation agreements with potential shippers.

Municipal Leasing Transactions

Certain municipalities in BC Gas Utility's service area have an option to purchase the gas distribution franchise within their municipal boundary. In order to address these purchase options, the Company has developed a leasing arrangement that allows BC Gas Utility to continue to operate the gas distribution assets, by effectively selling the assets to the municipality and leasing them back for a 17-year period. After 17 years, BC Gas Utility has an option to repurchase the assets at depreciated book value. At December 31, 2002, BC Gas Utility had entered into transactions involving a total value of $71.3 million.

CustomerWorks

On January 1, 2002, the Company and Enbridge Inc. created a limited partnership, CustomerWorks LP, to provide full service customer management solutions to utilities, municipalities and retail energy companies across Canada. As part of the formation of CustomerWorks LP, certain BC Gas Utility assets were contributed to CustomerWorks LP. BC Gas Utility also entered into a long-term contract with CustomerWorks LP for the provision of billing and customer care services.

With the acquisition of the Express Pipeline System, BC Gas can provide producers in Alberta with access to key markets for growing oil sands production.

During 2002, CustomerWorks LP entered into an arrangement with Accenture whereby responsibility for CustomerWorks' operations was assumed by Accenture. The Company owns 30% of CustomerWorks LP.

RISKS

Environmental and Safety

BC Gas could be exposed to significant operational disruptions and environmental liability in the event of a petroleum product spill or an accident involving natural gas. BC Gas has taken all reasonable and prudent steps to minimize its exposure in the case of a catastrophic event or environmental upset. The Company's efforts in this area are discussed under "Key Performance Drivers — Asset Management."

The cost of abandoning pipeline systems at the eventual end of their useful lives may not be fully recovered in rates or tolls. Until such time as the magnitude of and the funding mechanism for the eventual recovery of negative salvage is determined, the Company's petroleum transportation and gas distribution businesses, like those of other Canadian pipeline systems, make no provision for these amounts.

Regulatory Treatment

Through the regulatory process, the BCUC approves the return on equity which BC Gas Utility and Centra Gas are allowed to earn, in addition to various other aspects of utility operations. Fair regulatory treatment that allows BC Gas Utility and Centra Gas to earn a risk-adjusted rate of return comparable to that available on alternative, similar investments is essential for ongoing capital attraction and growth.

The revenue deficiency accumulated by Centra Gas is funded by the Company. Recovery of the deficiency through rates charged to customers is dependent upon regulatory approval and must be balanced against maintaining the competitiveness of Centra Gas' service relative to alternative energy sources. Recovery of the deficiency is expected to begin in 2003.

Under the 2001–2005 incentive toll settlement, Trans Mountain is unable to incorporate most cost increases into its tolls and so bears greater risk associated with cost increases than in previous years.

The Company's pension obligations are funded by pension plan investments in a variety of assets, including equities, where investment returns may be insufficient to meet pension obligation liabilities. The majority of the Company's pension obligations relate to regulated businesses, where pension deficits are generally recoverable through the regulatory process.

Competitiveness

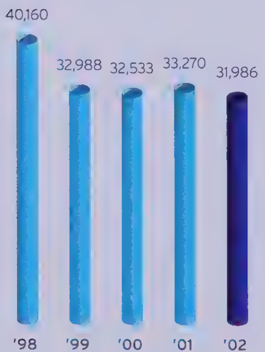
The unprecedented increase in the market price of natural gas in 2000 significantly eroded the competitive advantage of natural gas relative to alternative sources of energy, notably electricity, in British Columbia. The reductions in market prices and customer rates since that time have restored natural gas' competitive advantage. However, because electricity prices in British Columbia continue to be set based on the historical average cost of production, rather than based on market forces, they have remained artificially low compared to market priced natural gas. Over time, these pricing signals may distort energy use decisions by British Columbia consumers, thereby decreasing the use of natural gas by customers.

Even at the price levels in effect in early 2001, existing residential customers of BC Gas Utility and Centra Gas did not generally find it economical to switch to electricity. However, customers across most customer categories reduced gas consumption through energy efficiency measures and, in the case of certain industrial customers, fuel switching. Reductions in 2001 gas consumption among industrial customers were substantially reversed in 2002. Fluctuations in use per residential and commercial customer, whether arising from weather or price levels, are deferred and recovered in customer rates and have no earnings impact on the Company.

New customer additions at BC Gas Utility and Centra Gas are typically a result of population growth and new housing starts, which are affected by the state of the provincial economy. Customer additions are also affected by the relative competitiveness of natural gas compared to alternative energy sources.

PETROLEUM TRANSPORTATION

Canadian Mainline Deliveries (including U.S. Mainline)
(cubic metres per day)



Deliveries declined in 2002 as a result of reduced throughput to Washington State refineries, offset by higher export deliveries.

Trans Mountain's pipeline to the West Coast of North America and the Express System pipeline to the U.S. Rocky Mountains and Midwest are two of several pipeline alternatives for Western Canadian petroleum production, and throughput on these pipelines may decline if overall petroleum production in Alberta declines or if tolls become uncompetitive compared to alternatives. Throughput on Trans Mountain may decline in situations where West Coast prices are relatively lower than alternative prices in the U.S. Midwest. Throughput on the Express System may decline as a result of reduced petroleum product demand in the U.S. Rocky Mountains.

Refined products can be imported for the British Columbia market through marine offloading facilities in the Port of Vancouver or by truck transportation from refineries in Washington State. In 2002, refined products for the British Columbia market represented approximately 41% of Trans Mountain's deliveries. This throughput risk could increase if the one remaining refinery in Vancouver closed. This risk could also increase when regulations reducing the allowable sulphur content of gasoline and diesel fuel take effect in 2005 and 2006, respectively, if increases in sulphur concentration when products are transported in the Trans Mountain pipeline are not capable of being handled. Trans Mountain is working with the refined product shippers to more fully understand the mechanisms leading to sulphur pickup by refined products and apply those findings to implement measures to reduce or mitigate the increases in sulphur concentration. It is expected that gasoline movements will continue, but new clean-up technologies will have to be employed by refiners to meet the restrictive diesel regulations.

Petroleum transportation revenues are affected by changes in throughput volumes. Under the incentive toll settlement for the Trans Mountain Canadian mainline, this risk is mitigated by a mechanism that permits Trans Mountain to recover revenue shortfalls arising from average throughput below 28,500 m^3/day in subsequent years. However, recovery of any accumulated shortfall depends on sufficient throughput in subsequent years. Revenues associated with throughput on the Trans Mountain U.S. mainline and the Express System are directly affected by changes in throughput.

Gas Supply

By bringing the Southern Crossing Pipeline into service, BC Gas has improved the security and competitiveness of the gas supply arrangements in place for BC Gas' customers. To the extent possible, BC Gas Utility and Centra Gas have also minimized gas supply and price risk through the use of long-term transportation, storage and supply contracts, hedging instruments and a diverse supply portfolio.

However, local market prices have been higher than prices elsewhere in North America as a result of insufficient pipeline capacity to serve the increasing demand for natural gas in B.C. and the U.S. Pacific Northwest. In addition, BC Gas Utility and Centra Gas continue to be dependent on a limited selection of pipeline and storage providers, particularly in the Vancouver-Lower Mainland and Vancouver Island service areas where the majority of the Company's natural gas distribution customers are located. BC Gas is actively exploring opportunities to cost-effectively expand pipeline capacity to the Lower Mainland through initiatives such as the Inland Pacific Connector Project, a proposal to extend the Southern Crossing Pipeline from Oliver (in the interior of British Columbia) to the regional natural gas trading hub of Sumas, near Vancouver.

Centra Gas is served by a single source transmission pipeline. In the event of a service disruption on the transmission system, the Vancouver Island portion of the system could be affected for an extended period of time, thereby affecting revenues.

Interest Rates and Foreign Exchange

BC Gas' earnings are sensitive to interest rates in several ways. Some outstanding debt has net exposure to short-term interest rates, and is not subject to regulatory interest deferral accounts. In addition, the allowed returns on equity for BC Gas Utility, Centra Gas and Corridor are determined by formulae that result in lower allowed ROEs if long-term Canada bond yields decline.

As a result, if short-term interest rates increased by 1.0% for an extended period of time, the estimated impact on BC Gas' annual consolidated net earnings would be a reduction of approximately $3 million, whereas a similar increase in long-term interest rates would be expected to increase annual net earnings by approximately $9 million.

In addition, a component of BC Gas' earnings, principally earnings from Trans Mountain's U.S. pipeline and the Express System, are denominated in U.S. dollars. As a result, an annual decline of $0.10 in the price of a U.S. dollar in Canadian dollars would be expected to result in a decrease in annual consolidated net earnings of approximately Cdn$1 million.

The sensitivities described above are based on BC Gas' business profile as at December 31, 2002 and the acquisition of the Company's one-third interest in the Express System, and may change over time as a result of changes in BC Gas' business profile.

BC Gas has hedging programs in place for its interest rate and foreign exchange risks which have been factored into the sensitivities described above, and which are described in note 12 to the consolidated financial statements.

OUTLOOK

BC Gas is continuing to execute its focused strategy of delivering attractive growth through investments in low risk businesses. Through projects such as the Corridor Pipeline, the Bison Pipeline, and the Inland Pacific Connector Pipeline, and through initiatives such as the Centra Gas and Express System acquisitions, the BC Gas group of companies is positioned to meet the growing needs for natural gas distribution and petroleum transportation in Western Canada.

In natural gas distribution, a key objective for 2003 will be to develop a new multi-year incentive regulatory settlement for BC Gas Utility that, in conjunction with the renewal of Centra Gas' regulatory settlement, will provide the opportunity to create value for both customers and shareholders. BC Gas will also continue to pursue initiatives such as demand-side management, price risk management, and new infrastructure projects such as the Inland Pacific Connector to ensure the long-term competitiveness of natural gas in BC Gas' service area.

In petroleum transportation, BC Gas will be able to capitalize on the unique opportunity presented by the development of the Alberta oil sands. During 2003, the Corridor Pipeline will be commissioned, and opportunities such as the expansion of the Trans Mountain Pipeline and Express System and the development of the Bison Pipeline will be actively pursued.

BC Gas is committed to delivering on its financial targets while maintaining a low risk profile and focusing on the Company's core businesses. The Company is committed to achieving these objectives in the long term through operational excellence, financial excellence and focused business development.

Management's Responsibility

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. These financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, include amounts that are based on management's best estimates and judgements. The financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss and that reliable financial records are maintained. These systems are monitored by internal auditors.

KPMG LLP, the auditors appointed by the shareholders, have reviewed the systems of internal control and examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express an independent opinion on the consolidated financial statements. Their report is set out below.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting and internal control. The Audit Committee meets with the internal auditors, the independent auditors and management to discuss auditing and financial matters and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board for consideration in approving the consolidated financial statements for issuance to the shareholders.

J.M. Reid

John M. Reid
President and Chief Executive Officer

M.C. Woensdregt

Milton C. Woensdregt
Senior Vice President, Finance,
Chief Financial Officer and Treasurer

Vancouver, Canada
February 3, 2003

Auditors' Report to the Shareholders

We have audited the consolidated statements of financial position of BC Gas Inc. as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the *Company Act* (British Columbia), we report that, in our opinion, these principles have been applied, before giving effect to the change in the method of accounting for goodwill as explained in the notes to the consolidated financial statements, on a consistent basis.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 3, 2003

Consolidated Statements of Earnings

(In millions of dollars, except per share amounts) *Years ended December 31*	2002	2001
Revenues		
Natural gas distribution	$ 1,402.7	$ 1,420.3
Petroleum transportation	136.0	143.1
Other activities	168.5	102.9
	1,707.2	1,666.3
Expenses		
Cost of natural gas	807.2	931.8
Operation and maintenance	289.3	212.0
Depreciation and amortization	115.6	95.1
Property and other taxes	66.1	60.8
Cost of revenues from other activities	92.5	71.4
	1,370.7	1,371.1
Operating Income	336.5	295.2
Financing costs (note 9)	160.8	148.3
Earnings before income taxes	175.7	146.9
Income taxes (note 10)	63.2	55.9
Net Earnings	112.5	91.0
Capital securities distributions, net of income taxes (note 6)	6.7	6.4
Earnings Applicable to Common Shares	$ 105.8	$ 84.6
Common shares – weighted average (millions)	43.2	38.3
Basic Earnings per Common Share (note 11)	$ 2.45	$ 2.21
Diluted Earnings per Common Share (note 11)	$ 2.43	$ 2.19

Consolidated Statements of Retained Earnings

(In millions of dollars) *Years ended December 31*	2002	2001
Retained earnings, beginning of year	$ 271.0	$ 240.7
Net earnings	112.5	91.0
	383.5	331.7
Dividends on common shares	59.8	49.8
Share issue costs, net of income taxes (note 6)	13.8	–
Capital securities distributions, net of income taxes	6.7	6.4
Share options purchased (note 7)	1.0	4.5
	81.3	60.7
Retained earnings, end of year	$ 302.2	$ 271.0

Consolidated Statements of Financial Position

(In millions of dollars) *As at December 31*	2002	2001
Assets		
Current assets		
Cash and short-term investments	**$ 5.1**	$ 2.1
Accounts receivable	**299.2**	270.6
Inventories of gas in storage and supplies	**98.2**	116.5
Prepaid expenses	**11.1**	8.4
Current portion of rate stabilization accounts (note 3)	**69.3**	105.9
	482.9	503.5
Property, plant and equipment (note 2)	**3,779.2**	3,079.9
Goodwill	**101.0**	21.8
Rate stabilization accounts (note 3)	**72.5**	41.8
Other assets (note 4)	**86.8**	58.7
	$ 4,522.4	$ 3,705.7
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term notes	**$ 440.0**	$ 305.0
Accounts payable and accrued liabilities	**298.1**	310.4
Income and other taxes payable	**31.9**	18.7
Current portion of long-term debt (note 5)	**108.9**	223.6
	878.9	857.7
Long-term debt (note 5)	**2,123.4**	1,928.0
Other long-term liabilities and deferred credits	**96.4**	23.1
Future income taxes	**58.1**	56.8
	3,156.8	2,865.6
Shareholders' equity		
Capital securities (note 6)	**125.0**	125.0
Common shares (note 6)	**858.6**	364.3
Contributed surplus	**130.8**	130.8
Retained earnings	**302.2**	271.0
	1,416.6	891.1
Less cost of common shares held by Terasen Pipelines (Trans Mountain) Inc.	**51.0**	51.0
	1,365.6	840.1
	$ 4,522.4	$ 3,705.7

Approved by the Board:

Iain J. Harris
Director

John M. Reid
Director

Consolidated Statements of Cash Flows

(In millions of dollars) *Years ended December 31*	2002	2001
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 112.5**	$ 91.0
Adjustments for non-cash items		
Depreciation and amortization	**115.6**	95.1
Future income taxes	**10.6**	9.5
Other	**5.3**	(0.7)
	244.0	194.9
Decrease in rate stabilization accounts	**66.9**	2.4
Changes in non-cash operating working capital	**7.2**	(137.5)
	318.1	59.8
Investing activities		
Property, plant and equipment	**(395.7)**	(469.8)
Acquisition of Centra Gas (note 1)	**(305.2)**	–
Proceeds on sale of natural gas distribution assets (note 14)	**23.8**	47.5
Other assets	**(33.8)**	(32.6)
	(710.9)	(454.9)
Financing activities		
Increase (decrease) in short-term notes	**135.0**	(82.0)
Increase in long-term debt	**84.5**	590.8
Reduction of long-term debt	**(231.4)**	(73.6)
Issue of common shares, net of issue costs (note 6)	**475.2**	0.3
Share options purchased	**(1.0)**	(4.5)
Dividends and distributions on common shares and capital securities	**(66.5)**	(56.2)
	395.8	374.8
Net increase (decrease) in cash	**3.0**	(20.3)
Cash at beginning of year	**2.1**	22.4
Cash at end of year	**$ 5.1**	$ 2.1
Supplemental cash flow information		
Interest paid in the year	**$ 180.8**	$ 159.0
Income taxes paid in the year	**19.7**	7.7

Cash is defined as cash or bank indebtedness.

Significant Accounting Policies

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and reflect the following summary of significant accounting policies.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its subsidiaries, and its proportionate share of the accounts of joint ventures. The natural gas distribution operations are conducted through BC Gas Utility Ltd. ("the Utility"), and Centra Gas British Columbia Inc. and Centra Gas Whistler Inc. ("Centra Gas"). The petroleum transportation operations are carried out through Terasen Pipelines (Trans Mountain) Inc. ("Trans Mountain"), formerly Trans Mountain Pipe Line Company Ltd. prior to December 31, 2002, which owns and operates a common carrier pipeline system for crude and refined petroleum products and through Terasen Pipelines (Corridor) Inc. ("Corridor"), formerly Corridor Pipeline Limited prior to January 16, 2003, which is currently commissioning a pipeline in Northern Alberta to transport diluted bitumen.

As at December 31, 2002, Trans Mountain owned 8.2% (2001 – 10.7%) of the common shares of the Company. The cost of these shares is shown as a deduction from shareholders' equity.

REGULATION

The Utility and Centra Gas are subject to the regulation of the British Columbia Utilities Commission ("the BCUC"). Trans Mountain's operations are regulated in Canada by the National Energy Board and, in the United States, tariff matters are regulated by the Federal Energy Regulatory Commission.

These regulatory authorities exercise statutory authority over such matters as rates of return, construction and operation of facilities, accounting practices, rates and tolls, and contractual agreements with customers. With respect to Corridor, these matters are governed by contractual arrangements with shippers and are subject to regulation by the Alberta Energy and Utilities Board.

INVENTORIES

Inventories of gas in storage and supplies are valued at cost determined mainly on a weighted-average basis. Other inventories are valued at the lower of cost and net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes all direct expenditures for system expansions, betterments and replacements, an allocation of overhead costs and an allowance for funds used during construction.

Depreciation of regulated assets is recorded on a straight-line basis on plant in service at rates approved by regulatory authorities. Depreciation rates require the use of management estimates of the useful lives of assets. The cost of depreciable property retired, together with removal costs less salvage, is charged to accumulated depreciation. When allowed by the regulators, regulated operations capitalize an allowance for equity funds used during construction at approved rates.

Depreciation of non-regulated equipment is provided using the declining balance method.

No provision for future removal and site restoration obligations has been accrued for regulated operations as the extent of such costs is not currently determinable. Management expects that such costs would be recoverable through future rates or tolls.

RATE STABILIZATION ACCOUNTS

Centra Gas maintains a BCUC approved Revenue Deficiency Deferral Account ("RDDA") to accumulate unrecovered costs of providing service to customers. The RDDA accumulates the difference between revenues and costs for future recovery through rates. The Company expects recovery to commence in 2003.

The Utility is authorized by the BCUC to maintain two rate stabilization accounts to mitigate the effect on its earnings of unpredictable and uncontrollable factors, principally temperature and natural gas cost volatility. The Gas Cost Reconciliation Account ("GCRA") accumulates unforecasted changes in natural gas costs net of natural gas cost recoveries. The Revenue Stabilization Adjustment Mechanism ("RSAM") accumulates the margin impact of variations in the actual use for residential and commercial customers from forecast use.

All rate stabilization balances are amortized as approved by the BCUC.

DEFERRED CHARGES

The Company defers certain charges which the regulatory authorities or contractual arrangements require or permit to be recovered through future rates or tolls. Deferred charges are amortized over various periods depending on the nature of the charges and include long-term debt issue costs which are amortized over the term of the related debt.

Deferred charges not subject to regulation relate to projects which may benefit future periods and will be capitalized on completion or expensed on abandonment of the projects. Amortization is provided on a straight-line basis over periods of up to ten years.

GOODWILL

Goodwill represents the excess of an investment over the fair value of the net assets acquired. Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") relating to Goodwill and Other Intangible Assets. The new standard is mandatory for fiscal years beginning on or after January 1, 2002. Under this new standard, goodwill is no longer amortized but is tested annually for impairment by comparing the book value with the fair value of the goodwill of the reporting unit to which the goodwill is attributable. Any deficiency in the book value compared to the fair value will be recognized as an impairment loss.

REVENUE RECOGNITION

The Company recognizes revenues when products have been delivered or services have been performed.

The natural gas distribution utilities record revenues from natural gas sales on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the year and adjusted for the Revenue Stabilization Adjustment Mechanism and other BCUC approved orders.

For the petroleum transportation operations, revenues are recorded when products are delivered and adjusted according to terms prescribed by the Incentive Toll Settlements with the shippers and approved by the National Energy Board.

EMPLOYEE BENEFIT PLANS

The Company maintains both defined benefit and defined contribution pension plans.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets, as the underlying services are provided, except where regulatory recovery in rates requires costs to be expensed as paid. The cost of defined benefit pension plans and other retirement benefits earned by employees is actuarially determined using the projected benefit method and reflects management's best estimates of expected plan investment performance, salary growth, future terminations, expected health care costs, mortality rates and retirement ages of plan members. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Adjustments, in excess of 10% of the greater of benefit obligation and plan asset value, that result from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group covered by the plan. A discount rate based on AA corporate bond yields is used to measure the accrued pension benefit obligation.

Defined contribution plan costs are expensed by the Company as contributions are payable.

The costs of providing pension and post employment benefits match the recovery of these costs in rates.

INCOME TAXES

The Company's regulated operations account for and recover income tax expense as prescribed by regulators for ratemaking purposes. This treatment includes accounting for income taxes by the taxes payable method and accounting for certain assets and rate stabilization accounts on a net of realized tax savings basis, as approved by the BCUC. Rates do not include the recovery of future income taxes related to temporary differences. The taxes payable method is followed as there is reasonable expectation that all future income taxes will be recovered in rates from customers when they become payable.

The Company's non-regulated operations follow the liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the tax basis of assets and liabilities and their carrying values for accounting purposes. Future income tax assets and liabilities are measured at the tax rate that is expected to apply when the temporary differences reverse.

SHARE-BASED COMPENSATION

The Company has a common share option plan which is described in note 7. Effective January 1, 2002, the Company adopted the new recommendations of the CICA in respect of Stock-based Compensation and Other Stock-based Payments. This new standard is mandatory for fiscal years beginning on or after January 1, 2002. The Company is in compliance with all disclosure requirements of the new standard and, as permitted by the standard, is not recognizing compensation expense when the options are granted.

Consideration paid by participants in the plan on the exercise of granted share options is credited to common shares. Consideration paid to purchase share options from participants was charged to retained earnings, net of the related income taxes. In 2002, the Company executed its right to override indefinitely all participant requests to exchange options for cash.

Notes to Consolidated Financial Statements

(Tabular amounts in millions of dollars, except per share amounts)
Years ended December 31, 2002 and 2001

1. ACQUISITIONS AND RELATED FINANCINGS

Centra Gas

The Company acquired all of the outstanding shares and inter-corporate debt of Centra Gas British Columbia Inc. and Centra Gas Whistler Inc. (collectively "Centra Gas") effective January 1, 2002. The results of Centra Gas' operations have been included in the consolidated financial statements since that date. Centra Gas delivers natural gas to customers on Vancouver Island and the Sunshine Coast and propane to customers in Whistler, British Columbia.

The aggregate purchase price was $333.4 million, including $305.2 million paid in cash and a $52.0 million deferred payment with a present value of $28.2 million. The deferred payment is payable on December 31, 2011 or sooner if Centra Gas realizes revenues from transportation contracts to serve power generating plants which may be constructed in Centra Gas' service area. If any part of the deferred payment is paid prior to December 31, 2011, the difference between the payment and the carrying value of the debt will be treated as contingent consideration and added to the cost of the purchase at that time.

The following table summarizes the fair value assigned to the assets acquired and liabilities assumed at January 1, 2002.

Current assets	$ 34.3
Property, plant and equipment	432.9
Rate stabilization account	61.0
Goodwill	75.9
Deferred charges	8.4
Future income taxes	3.0
Total assets acquired	615.5
Current liabilities	(44.2)
Long-term debt	(224.1)
Other long-term liabilities	(13.8)
Total liabilities assumed	(282.1)
Net assets acquired	$ 333.4

The acquisition was financed by the issuance of 5,208,000 common shares with gross proceeds of $188.3 million and by debt of $145.1 million. The common shares were issued pursuant to an agreement whereby, on November 20, 2001, the Company issued 5,208,000 subscription receipts at a price of $36.15 per subscription receipt. Proceeds from the sale were held in escrow by a trustee until the closing of the acquisition, when each subscription receipt was converted into one common share of the Company.

Express Pipeline

On January 9, 2003 a consortium including the Company, Borealis Infrastructure Management Inc. and the Ontario Teachers' Pension Plan Board acquired all of the outstanding shares of Express Pipeline Ltd. and Express Holdings (U.S.A.) Inc. (the "Express System") from EnCana Corporation. Each of the three consortium members owns an equal interest in the Express System. The purchase price was approximately $1,175.0 million, including assumed debt of approximately $582.0 million, subject to closing and post-closing adjustments. The Company's share of the equity portion of the purchase price was approximately $198.0 million before adjustments.

The Express System transports crude oil from Hardisty, Alberta to the Rocky Mountain region of the United States and on to Wood River, Illinois.

The December 2002 issue of common shares, which yielded gross proceeds of $301.4 million, was completed to finance, in part, the January 2003 purchase of the Company's interest in the Express System.

2. PROPERTY, PLANT AND EQUIPMENT

2002

	Depreciation rates	Cost	Accumulated depreciation	Net book value
Natural gas distribution systems	**1% – 10%**	**$ 2,891.7**	**$ 439.6**	**$ 2,452.1**
Petroleum pipeline systems	**1% – 10%**	**533.8**	**243.0**	**290.8**
Petroleum pipeline under construction	**–**	**643.7**	**–**	**643.7**
Plant, buildings and equipment	**1% – 33%**	**393.7**	**134.2**	**259.5**
Land and land rights	**0% – 5%**	**134.6**	**1.5**	**133.1**
		$ 4,597.5	**$ 818.3**	**$ 3,779.2**

2001

	Depreciation rates	Cost	Accumulated depreciation	Net book value
Natural gas distribution systems	1% – 10%	$ 2,415.1	$ 395.0	$ 2,020.1
Petroleum pipeline systems	1% – 10%	520.2	233.2	287.0
Petroleum pipeline under construction	–	418.7	–	418.7
Plant, buildings and equipment	1% – 33%	358.9	122.6	236.3
Land and land rights	0% – 5%	118.9	1.1	117.8
		$ 3,831.8	$ 751.9	$ 3,079.9

The composite depreciation rate on regulated property, plant and equipment for the year ended December 31, 2002 is approximately 2.8% (2001 – 2.9%).

3. RATE STABILIZATION ACCOUNTS

The purpose of these rate stabilization accounts is described in the Significant Accounting Policies.

	2002	2001
Revenue Deficiency Deferral Account (RDDA)	**$ 65.1**	$ –
Gas Cost Reconciliation Account (GCRA)	**42.2**	114.7
Revenue Stabilization Adjustment Mechanism (RSAM)	**34.5**	33.0
Total rate stabilization accounts	**141.8**	147.7
Less current portion of rate stabilization accounts	**69.3**	105.9
	$ 72.5	$ 41.8

The current portion of the rate stabilization accounts represents the amounts expected to be recovered in the next twelve months. Actual recoveries will vary depending on actual gas consumption and amounts approved by the BCUC.

4. OTHER ASSETS

	2002	2001
Deferred charges		
Subject to regulation	**$ 48.3**	$ 25.8
Not subject to regulation	**16.9**	12.5
Investments	**8.8**	9.1
Long-term receivables	**12.8**	11.3
	$ 86.8	$ 58.7

5. LONG-TERM DEBT

	2002	2001
BC Gas Inc.		
(a) 6.30% Series 1 Medium Term Note Debentures, due December 1, 2008	$ 200.0	$ 200.0
BC Gas Utility Ltd.		
(b) **Purchase Money Mortgages:**		
11.80% Series A, due September 30, 2015	74.9	74.9
10.30% Series B, due September 30, 2016	200.0	200.0
(c) **Debentures:**		
9.75% Series D, due December 17, 2006	20.0	20.0
10.75% Series E, due June 8, 2009	59.9	59.9
8.50% Series F, due August 26, 2002	–	100.0
8.15% Series H, due July 28, 2003	50.0	50.0
(d) **Medium Term Note Debentures:**		
6.20% Series 9, due June 2, 2008	188.0	188.0
6.95% Series 11, due September 21, 2029	150.0	150.0
6.50% Series 12, due July 20, 2005	200.0	200.0
6.50% Series 13, due October 16, 2007	100.0	100.0
6.00% Series 14, due October 23, 2003	50.0	50.0
6.00% Series 15, due December 11, 2002	–	75.0
6.15% Series 16, due July 31, 2006	100.0	100.0
Various series, weighted average interest rate of 9.63% (2001 – 9.63%) due in 2005	45.0	45.0
Obligations under capital leases, at 6.34% (2001 – 5.93%)	12.5	14.0
	1,250.3	1,426.8
Centra Gas British Columbia Inc.		
(e) Syndicated credit facility at short-term floating rates, weighted average interest rate of 3.66% with annual repayments of $5.5 million and maturities of $176.5 million in 2006 and $33.0 million in 2009	224.2	–
Terasen Pipelines (Trans Mountain) Inc.		
(f) **Debentures:**		
9.75% Series A, due February 18, 2002	–	44.9
10.75% Series B, due November 22, 2004	30.0	30.0
11.50% Series C, due June 20, 2010	35.0	35.0
	65.0	109.9
Terasen Pipelines (Corridor) Inc.		
(g) Commercial Paper at short-term floating rates, weighted average interest rate of 2.89% (2001 – 2.69%)	487.0	404.0
Other long-term debt	5.8	10.9
Total long-term debt	2,232.3	2,151.6
Less current portion of long-term debt	108.9	223.6
	$ 2,123.4	$ 1,928.0

(a) BC Gas Inc. Medium Term Note Debentures:

The Company's Medium Term Note Debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 21, 2001.

(b) BC Gas Utility Ltd. Purchase Money Mortgages:
The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on the Utility's Coastal Division assets, and are subject to the restrictions of the Trust Indenture dated December 3, 1990. The aggregate principal amount of Purchase Money Mortgages that may be issued under the Trust Indenture is limited to $425 million.

(c) BC Gas Utility Ltd. Debentures:
The Utility's debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 1, 1977, as amended and supplemented.

(d) BC Gas Utility Ltd. Medium Term Note Debentures:
The Utility's Medium Term Note Debentures are unsecured obligations but are subject to the terms of the Trust Indenture dated November 1, 1977 (see note 5(c)).

(e) Centra Gas British Columbia Inc. Bank Syndicate:
The credit facility from the syndicate of banks is secured by a first floating charge over all of the assets of Centra Gas, assignment of material contracts, and assignment of royalty revenue and interruptible incentive payments.

(f) Terasen Pipelines (Trans Mountain) Inc. Debentures:
The Trans Mountain debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated February 18, 1987, as amended and supplemented.

(g) Terasen Pipelines (Corridor) Inc. Commercial Paper:
The commercial paper program to finance the Corridor pipeline is supported by a syndicated bank credit facility that is committed during the construction period and for three years following the commencement of payments under the transportation contract. The indebtedness under this credit facility and the commercial paper program are guaranteed by the Company. Upon completion of the construction period and the satisfaction of certain other conditions, the Company's guarantee will be released.

The Company's Series 1 Medium Term Note Debentures, the Utility's Series B Purchase Money Mortgages, Series E and Series H Debentures, and Series 11, Series 13 and Series 16 Medium Term Note Debentures, and Trans Mountain's Series B and Series C Debentures are redeemable in whole or in part at the option of the Company at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption. The Canada Yield Price is calculated as an amount that provides a yield slightly above the yield on an equivalent maturity Government of Canada bond.

Required principal repayments over the next five years are as follows:

2003	$ 108.9
2004	38.9
2005	253.2
2006	788.7
2007	102.3

6. CAPITAL SECURITIES AND COMMON SHARES

Authorized Share Capital
The Company is authorized to issue 750,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value.

Capital Securities
On April 19, 2000, the Company issued $125.0 million of 8.0% Capital Securities with a term to maturity of 40 years for gross proceeds of $123.7 million. The Company may elect to defer payments on these securities and settle such deferred payments in either cash or common shares, and has the option to settle principal at maturity through the issuance of common shares. Accordingly, the capital securities have been classified as equity. The securities are exchangeable at the option of the holder on or after April 19, 2010 for common shares of the Company at 90% of the market price, subject to the right of the Company to redeem the securities for cash. Distributions on these securities, net of related income taxes, are deducted from net earnings for the purposes of calculating earnings applicable to common shares.

Common Shares

In March 2002, the Company issued 5,208,000 common shares for gross proceeds of $188.3 million through the conversion of subscription receipts, and in December 2002, the Company issued 7,931,600 common shares in concurrent public and private placements for gross proceeds of $301.4 million. Costs associated with the issuance of these shares of $13.8 million, net of current and future income taxes, have been recorded against retained earnings.

Changes in the issued and outstanding common shares are as follows:

	2002		2001	
	Number	Amount	Number	Amount
Outstanding, beginning of year	**42,936,059**	**$ 364.3**	42,918,876	$ 364.0
Issued under:				
Public and private placements	**7,931,600**	**301.4**	–	–
Conversion of subscription receipts	**5,208,000**	**188.3**	–	–
Share option plan	**196,377**	**4.5**	17,183	0.3
Employee share purchase plan	**1,969**	**0.1**	–	–
	56,274,005	**$ 858.6**	42,936,059	$ 364.3
Less common shares held by Trans Mountain	**4,592,094**		4,592,094	
Outstanding, end of year	**51,681,911**		38,343,965	

Reserved for Issue

At December 31, 2002 the number of common shares reserved for issue to meet rights outstanding is as follows:

Under share option plan	3,479,090
Under dividend reinvestment and share purchase plan	2,062,576
Under payroll deduction employee share purchase plan	412,543
	5,954,209

7. SHARE OPTION PLAN AND STOCK-BASED COMPENSATION

Share Option Plan

The Company has a Share Option Plan whereby officers, directors and certain employees may be granted options to purchase a maximum of 6,300,000 unissued common shares with terms of up to ten years. The option exercise price is the closing sale price of the common shares on the Toronto Stock Exchange on the trading day prior to the date the option is granted. The Plan provides participants in the plan with the right to request the Company to purchase all or part of the vested options for cash. The Company has the right to override the request and require the participant to determine whether or not to exercise the option for unissued common shares. In 2002, the Company exercised its right to override indefinitely all participant requests to exchange options for cash.

In 2002, options to purchase 97,321 (2001 – 383,356) common shares were purchased for $1.0 million (2001 – $4.5 million), net of income tax benefits, which has been charged to retained earnings.

There are two categories of options which have been issued under the Share Option Plan, Regular Share Options and Performance Based Share Options.

Regular Share Options

Since 2000, the Company granted options with eight-year terms which are exercisable on a cumulative basis and vest at one-third per annum on the anniversary of the option grant date. Prior to 2000, the Company granted options with ten-year terms which are exercisable on a cumulative basis at 20% per annum.

Regular Options Outstanding

	2002		2001	
	Shares under option	Weighted-average exercise price	Shares under option	Weighted-average exercise price
Outstanding, beginning of year	**610,849**	**$ 24.28**	938,175	$ 21.40
Options granted during the year	**266,830**	**33.81**	42,400	31.00
Options exercised	**(109,619)**	**21.76**	(17,183)	15.91
Options forfeited and expired	**(4,551)**	**28.35**	(9,671)	26.67
Options purchased	**(79,771)**	**20.26**	(342,872)	17.58
Outstanding, end of year	**683,738**	**$ 28.85**	610,849	$ 24.28
Options exercisable, end of year	**337,373**	**$ 24.51**	402,303	$ 22.41

	Options outstanding			Options exercisable	
Exercise price range	Shares under option	Weighted-average exercise price	Weighted-average remaining contractual life	Number exercisable at year-end	Weighted-average exercise price
$13.87 – $18.00	69,908	$ 14.51	1.3	69,908	$ 14.51
$21.20 – $26.65	195,384	25.63	5.0	138,719	25.34
$27.50 – $35.12	418,446	32.75	6.5	128,746	29.04
	683,738	$ 28.85	5.5	337,373	$ 24.51

Performance Based Share Options

The Company has granted performance based share options with eight-year terms. The options vest at one-third per annum on the anniversary of the option grant dates, subject to the market price of the Company's common shares reaching 125% of the option's exercise price for at least 10 out of 15 consecutive trading days within four years of the option grant date. If the market price requirement is not attained within four years of grant date, the participant is still eligible to exercise two-thirds of the granted options if the common share price reaches 125% of the option's exercise price for at least 10 out of 15 consecutive trading days during the subsequent four years.

Performance Based Options Outstanding

	2002		2001	
	Shares under option	Weighted-average exercise price	Shares under option	Weighted-average exercise price
Outstanding, beginning of year	**677,275**	**$ 27.66**	491,577	$ 25.39
Options granted during the year	**386,400**	**35.21**	282,300	31.30
Options exercised during the year	**(86,758)**	**24.56**	–	–
Options forfeited and expired	**(13,275)**	**25.99**	(56,118)	27.86
Options purchased	**(17,550)**	**27.09**	(40,484)	25.35
Outstanding, end of year	**946,092**	**$ 31.06**	677,275	$ 27.66
Options exercisable, end of year	**324,909**	**$ 27.31**	211,175	$ 26.13

	Options outstanding			Options exercisable	
Exercise price range	Shares under option	Weighted-average exercise price	Weighted-average remaining contractual life	Number exercisable at year-end	Weighted-average exercise price
$22.50 – $27.25	316,775	$ 25.77	4.7	258,892	$ 26.37
$31.00 – $39.20	629,317	33.72	6.8	66,017	31.00
	946,092	$ 31.06	6.1	324,909	$ 27.31

Stock-Based Compensation

The Company accounts for the issue of options under its stock option plans as capital transactions when the options are exercised. In 2002, 653,230 stock options were granted at an average exercise price of $34.64 under the Company's Stock Option Plan. If the Company had used the fair-value based method to account for stock-based compensation, pro forma earnings and earnings per share would have been as follows:

Year ended December 31, 2002

Net earnings	As reported	$ 112.5 million
	Pro forma	$ 111.2 million
Earnings applicable to common shares	As reported	$ 105.8 million
	Pro forma	$ 104.5 million
Basic earnings per common share	As reported	$ 2.45
	Pro forma	$ 2.42
Diluted earnings per common share	As reported	$ 2.43
	Pro forma	$ 2.40

Pro forma earnings and earnings per share do not reflect options granted prior to January 1, 2002, the date of adoption of the new standard.

A Black-Scholes model was used to calculate stock option fair value for the pro forma results. Significant assumptions include interest rates of between 4.28% and 5.07% matched to the expected life of the option, expected volatility of 22.49% and an expected dividend yield of 4.18%. There is an expected life of five years on regular share options and an expected life of six years on performance based share options. The weighted average fair value of options granted in 2002 was $5.89.

8. EMPLOYEE BENEFIT PLANS

The Company and its subsidiaries have defined benefit pension plans and defined contribution pension plans for employees. The Company also provides post employment benefits other than pensions including supplemental health, dental and life insurance coverage for retired employees. Information about these benefit plans, in aggregate, is as follows:

	Pension benefit plans		Other benefit plans	
	2002	2001	2002	2001
Plan assets				
Fair value, beginning of year	**$ 223.7**	$ 225.3	**$ –**	$ –
Acquisition of Centra Gas assets	**11.9**	–	**–**	–
Actual return (loss) on plan assets	**(8.0)**	1.8	**–**	–
Employers' contributions	**4.3**	3.5	**0.9**	0.8
Employees' contributions	**3.0**	3.1	**–**	–
Benefits and settlements paid	**(13.0)**	(10.0)	**(0.9)**	(0.8)
Other	**(0.7)**	–	**–**	–
Fair value, end of year	**221.2**	223.7	**–**	–
Accrued benefit obligation				
Balance, beginning of year	**221.5**	194.4	**36.1**	30.9
Acquisition of Centra Gas obligation	**14.6**	–	**2.5**	–
Current service cost	**7.5**	6.3	**1.1**	0.9
Interest cost	**15.6**	14.0	**2.5**	2.2
Employees' contributions	**3.0**	3.1	**–**	–
Benefits and settlements paid	**(13.0)**	(10.0)	**(0.9)**	(0.8)
Change in discount rate	**7.0**	11.6	**0.9**	2.9
Actuarial (gain) loss	**(9.5)**	(0.5)	**8.2**	–
Past service cost and other	**4.1**	2.6	**(0.5)**	–
Balance, end of year	**250.8**	221.5	**49.9**	36.1
Plan surplus (deficit)	**(29.6)**	2.2	**(49.9)**	(36.1)
Unamortized transitional obligation (benefit)	**(34.4)**	(37.4)	**18.3**	19.8
Unamortized actuarial loss	**54.8**	30.0	**14.3**	5.3
Unamortized past service costs	**8.0**	2.6	**0.2**	–
Accrued benefit liability	**$ (1.2)**	$ (2.6)	**$ (17.1)**	$ (11.0)

The non-pension defined benefit plans are unfunded. Included in the above pension benefit plans is a liability of $23.7 million at December 31, 2002 (2001 – $18.5 million) regarding defined benefit plans which have not been funded. These unfunded pension obligations are secured by a letter of credit.

Net Benefit Plan Expense

	Pension benefit plans		Other benefit plans	
	2002	2001	2002	2001
Current service cost	**$ 7.5**	$ 6.3	**$ 1.1**	$ 0.9
Interest cost on projected benefit obligations	**15.6**	14.0	**2.5**	2.2
Expected return on plan assets	**(17.8)**	(15.7)	**–**	–
Amortization of transitional obligation (benefit)	**(3.4)**	(3.4)	**2.7**	2.6
Other	**1.1**	0.2	**0.3**	–
Net benefit plan expense	**$ 3.0**	$ 1.4	**$ 6.6**	$ 5.7

The Company's defined contribution plans' expense for 2002 was $1.2 million (2001 – $1.1 million).

Significant Assumptions

The weighted average significant actuarial assumptions used in measuring the Company's accrued benefit obligations are as follows:

	Pension benefit plans		Other benefit plans	
	2002	2001	**2002**	2001
Discount rate	**6.56%**	6.81%	**6.50%**	6.50%
Expected long-term rate of return on plan assets	**7.50%**	7.15%	–	–
Rate of compensation increase	**3.39%**	3.21%	–	–

In determining the expected cost of health care benefits a 10% trend rate was assumed for 2001, decreasing gradually to 5% in 2006 and remaining level thereafter.

9. FINANCING COSTS

	2002	2001
Interest and expense on long-term debt	**$ 168.9**	$ 128.9
Interest on short-term debt	**10.8**	34.8
Interest capitalized	**(18.9)**	(15.4)
	$ 160.8	$ 148.3

10. INCOME TAXES

	2002	2001
Current income taxes	**$ 52.6**	$ 46.4
Future income taxes	**10.6**	9.5
	$ 63.2	$ 55.9

Variation in Effective Income Tax Rate

Consolidated income taxes vary from the amount that would be computed by applying the Canadian and United States federal, British Columbia and Alberta combined statutory income tax rate of 38.04% (2001 – 40.82%) to earnings before income taxes as shown in the following table:

	2002	2001
Earnings before income taxes	**$ 175.7**	$ 146.9
Combined statutory income tax rate	**38.04%**	40.82%
Combined income taxes at statutory rate	**$ 66.8**	$ 60.0
Increase (decrease) in income taxes resulting from:		
Capital cost allowance and other deductions claimed for income tax purposes over amounts recorded for accounting purposes	**(12.4)**	(9.2)
Large Corporations Tax in excess of surtax	**6.7**	6.1
Non-deductible expenses and non-taxable income	**1.3**	(0.5)
Other	**0.8**	(0.5)
Actual consolidated income taxes	**$ 63.2**	$ 55.9

Future Income Taxes

The net future income tax liability of the Company of $58.1 million (2001 – $56.8 million) relates primarily to the tax effect of temporary differences on non-regulated property, plant and equipment balances.

As a result of the Company accounting for income taxes following the taxes payable method for its regulated operations, the Company has not recognized net future income tax liabilities amounting to $321.0 million at December 31, 2002 (2001 – $246.0 million) and has not recognized a future income tax expense of $10.3 million for the year ended December 31, 2002 (2001 – recovery of $7.9 million), all of which were calculated using the liability method.

11. EARNINGS PER SHARE

Basic earnings per share are based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are based on the weighted average number of common shares and stock options outstanding at the beginning of or granted during the year. The Company's performance based share options are considered to be contingently issuable shares and have been included in the treasury stock method calculation only if all performance criteria of the options have been satisfied. The possible exchange of the $125.0 million Capital Securities into common shares has not been included in the treasury stock method calculation since similar obligations in the past have been paid wholly in cash.

	Weighted-average shares	Earnings	Weighted-average shares	Earnings
	2002	**2002**	2001	2001
Earnings applicable to common shares		**$ 105.8**		$ 84.6
Weighted average common shares — basic	**43.2**		38.3	
Add: weighted-average number of net shares that would be issued under treasury stock method	**0.4**		0.3	
	43.6	**$ 105.8**	38.6	$ 84.6
Basic earnings per share		**$ 2.45**		$ 2.21
Diluted earnings per share		**$ 2.43**		$ 2.19

12. FINANCIAL INSTRUMENTS

Fair Value Estimates

The carrying values of cash and short-term investments, accounts receivable, short-term notes and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments.

The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 2002, or by using available quoted market prices, is estimated at $2,424.8 million (2001 – $2,314.4 million). The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgement.

Derivative Instruments

The Company uses derivative instruments to hedge its exposures to fluctuations in natural gas prices, interest rates and foreign currency exchange rates.

Natural gas derivatives are used to manage natural gas price risk in the natural gas distribution operations. The majority of the natural gas supply contracts have floating, rather than fixed prices. On behalf of customers, the Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas used for rate making purposes are recorded in a deferral account (GCRA), subject to regulatory approval, and passed through to customers in future rates.

The Company's short-term borrowings and variable rate long-term debt are exposed to interest rate risk. The Company manages interest rate risk through the use of interest rate derivatives.

Foreign currency risk in natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through the regulatory process. The only material foreign currency risk in the petroleum transportation and other activities segments relates to the U.S. portion of Trans Mountain's crude oil pipeline system. The Company manages foreign currency exposures through the use of foreign currency derivatives.

The carrying value of natural gas derivatives at December 31, 2002 was an asset of $0.2 million (2001 – liability of $27.9 million) and the fair value of the derivatives was an asset of $15.8 million (2001 – liability of $167.2 million). These derivatives have terms to maturity of up to two years as at December 31, 2002. The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates.

As at December 31, 2002, the parent company had one interest rate swap outstanding with a term of approximately six years. The carrying value of this derivative was an asset of $0.2 million (2001 – $0.2 million) and the fair value of this derivative was an asset of $3.6 million (2001 – $0.0 million). There were no significant foreign currency derivatives outstanding at the end of 2002 or 2001.

As at December 31, 2002, Centra Gas had several interest rate swaps outstanding with terms of two to four years. The carrying value of the swaps at December 31, 2002 was a liability of $1.9 million and the fair value of the interest rate swaps as at December 31, 2002 was a liability of approximately $11.3 million. The derivatives entered into by Centra Gas relate to regulated operations and any resulting gains or losses are recorded in a deferral account (RDDA), subject to regulatory approval, and passed through to customers in future rates.

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. Because it deals with high credit quality institutions in accordance with established credit approval practices, the Company does not expect any counterparties to fail to meet their obligations.

13. SEGMENT DISCLOSURES

The Company operates principally in two business segments:

(a) Natural gas distribution, primarily involving the transmission and distribution of natural gas for residential, commercial, institutional, and industrial customers in British Columbia; and

(b) Petroleum transportation, primarily involving the transportation of crude and refined petroleum products, principally for seven major shippers from Alberta to the west coast of British Columbia and Washington state, and the Corridor Pipeline.

The Company's other activities include non-regulated energy and utility businesses as well as corporate financing costs and administration charges. The non-regulated businesses include water services, international consulting, natural gas vehicle fuelling and utility customer care services. The Company also operates in the United States. At the present time, these other businesses and the United States operations are not of sufficient size to be reportable as operating or geographic segments.

2002

	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	**$ 1,402.7**	**$ 136.0**	**$ 168.5**	**$ 1,707.2**
Cost of natural gas	**807.2**	**–**	**–**	**807.2**
Operation and maintenance	**179.3**	**43.8**	**66.2**	**289.3**
Depreciation and amortization	**92.6**	**17.1**	**5.9**	**115.6**
Property and other taxes	**46.9**	**18.7**	**0.5**	**66.1**
Cost of revenues	**–**	**–**	**92.5**	**92.5**
Operating income	**276.7**	**56.4**	**3.4**	**336.5**
Financing costs	**136.8**	**9.5**	**14.5**	**160.8**
Income taxes (recovery) on earnings	**47.5**	**17.6**	**(1.9)**	**63.2**
Net earnings (loss)	**92.4**	**29.3**	**(9.2)**	**112.5**
Earnings (loss) applicable to common shares	**92.4**	**29.3**	**(15.9)**	**105.8**
Earnings (loss) per common share	**2.14**	**0.68**	**(0.37)**	**2.45**
Total assets	**3,282.5**	**1,078.6**	**161.3**	**4,522.4**
Goodwill	**76.5**	**–**	**24.5**	**101.0**
Capital expenditures	**130.2**	**246.3**	**19.2**	**395.7**

2001

	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	$ 1,420.3	$ 143.1	$ 102.9	$ 1,666.3
Cost of natural gas	931.8	–	–	931.8
Operation and maintenance	136.3	46.5	29.2	212.0
Depreciation and amortization	75.7	16.4	3.0	95.1
Property and other taxes	41.9	18.6	0.3	60.8
Cost of revenues	–	–	71.4	71.4
Operating income (loss)	234.6	61.6	(1.0)	295.2
Financing costs	126.1	13.5	8.7	148.3
Income taxes (recovery) on earnings	40.7	20.8	(5.6)	55.9
Net earnings (loss)	67.8	27.3	(4.1)	91.0
Earnings (loss) applicable to common shares	67.8	27.3	(10.5)	84.6
Earnings (loss) per common share	1.77	0.71	(0.27)	2.21
Total assets	2,757.9	834.7	113.1	3,705.7
Goodwill	0.6	–	21.2	21.8
Capital expenditures	146.0	307.6	16.2	469.8

14. COMMITMENTS

(a) The Utility and Trans Mountain have entered into operating leases for certain building space and natural gas distribution assets. Minimum payments under these leases are on average approximately $19.7 million in each of the next four years, $63.5 million in 2007 and $225.7 million in aggregate.

Included in these amounts are payments for operating leases for certain natural gas distribution assets which were sold in October 2001 and November 2002. The pre-tax gains of $34.6 million on combined cash proceeds of $71.3 million have been deferred and are being amortized over the 17-year terms of the leases.

(b) The Company is constructing the Corridor Pipeline at an estimated cost of $700 million, of which $662.1 million has been incurred to December 31, 2002.

Consolidated Financial Information (Five Years)

Unaudited

(Dollar amounts in millions) *Years ended December 31*	**2002**	2001	2000	1999	1998
Statements of Earnings					
Operating revenue	**$ 1,707.2**	$ 1,666.3	$ 1,305.6	$ 1,040.6	$ 925.0
Operating expenses	**1,370.7**	1,371.1	1,049.0	784.7	664.5
Operating income	**336.5**	295.2	256.6	255.9	260.5
Other expenses	**160.8**	148.3	131.0	121.6	121.8
Income taxes	**63.2**	55.9	8.9	48.4	62.9
Non-controlling interest	**–**	–	4.0	4.7	4.6
Net earnings	**112.5**	91.0	112.7	81.2	71.2
Capital securities distributions	**6.7**	6.4	3.9	–	–
Earnings applicable to common shares	**$ 105.8**	$ 84.6	$ 108.8	$ 81.2	$ 71.2
Assets					
Current assets	**$ 482.9**	$ 503.5	$ 631.2	$ 270.7	$ 224.9
Property, plant and equipment (net)	**3,779.2**	3,079.9	2,727.6	2,185.1	2,168.6
Other assets	**260.3**	122.3	154.3	25.1	72.6
Total assets	**$ 4,522.4**	$ 3,705.7	$ 3,513.1	$ 2,480.9	$ 2,466.1
Liabilities and Shareholders' Equity					
Current liabilities	**$ 878.9**	$ 857.7	$ 1,094.4	$ 712.4	$ 858.1
Long-term debt	**2,123.4**	1,928.0	1,561.9	1,001.8	906.7
Other long-term liabilities and deferred credits	**96.4**	23.1	–	–	–
Other liabilities	**58.1**	56.8	47.3	140.4	111.3
Shareholders' equity	**1,365.6**	840.1	809.5	626.3	590.0
Total liabilities and shareholders' equity	**$ 4,522.4**	$ 3,705.7	$ 3,513.1	$ 2,480.9	$ 2,466.1
Cash Flow Data					
Operating cash flow	**$ 318.1**	$ 59.8	$ 179.3	$ 124.1	$ 80.2
Capital expenditures	**$ 395.7**	$ 469.8	$ 620.6	$ 163.6	$ 128.7

Operating Information (Five Years)

Unaudited

(Dollar amounts in millions) *Years ended December 31*	2002	2001	2000	1999	1998
Natural Gas Distribution Operations					
Revenues					
Residential	**$ 779.6**	$ 813.6	$ 627.8	$ 493.2	$ 423.1
Commercial	**382.3**	442.2	336.3	262.2	226.3
Small industrial	**76.7**	73.6	52.3	26.7	22.5
Large industrial and other	**27.4**	6.8	7.7	8.8	19.1
Total natural gas sales revenue	**$ 1,266.0**	$ 1,336.2	$ 1,024.1	$ 790.9	$ 691.0
Transportation	**83.8**	56.1	41.0	38.4	33.6
Other	**52.9**	28.0	20.3	15.4	17.8
Total natural gas revenue	**$ 1,402.7**	$ 1,420.3	$ 1,085.4	$ 844.7	$ 742.4
Natural gas volumes *(billion cubic feet)*					
Sales volumes	**126.0**	110.8	124.0	121.8	117.1
Transportation volumes	**61.3**	53.9	56.3	57.6	52.1
Throughput under fixed-price contracts	**22.6**	63.9	57.9	38.0	48.2
Total natural gas volumes	**209.9**	228.6	238.2	217.4	217.4
Customers at year end	**850,699**	767,855	762,878	755,383	742,305
Rate base – BC Gas Utility	**$ 2,233.7**	$ 2,207.9	$ 1,689.5	$ 1,637.4	$ 1,559.2
– Centra Gas	**450.9**	N/A	N/A	N/A	N/A
	$ 2,684.6	$ 2,207.9	$ 1,689.5	$ 1,637.4	$ 1,559.2
Petroleum Transportation Operations					
Revenues	**$ 136.0**	$ 143.1	$ 132.5	$ 129.4	$ 135.4
Transportation volumes *(m^3/day)*					
Canadian mainline	**31,986**	33,270	32,533	32,988	40,160
Jet fuel deliveries	**2,938**	3,072	3,149	3,196	3,260
Total throughput	**34,924**	36,342	35,682	36,184	43,420
U.S. mainline *(included in Canadian mainline)*	**7,607**	11,671	10,365	9,847	16,128
Kilometres of pipelines					
Natural gas distribution operations	**43,196**	37,430	37,197	36,581	36,473
Petroleum transportation operations	**1,477**	1,477	1,477	1,477	1,477
Employees (consolidated)	**2,051**	1,782	1,966	1,869	1,819

Consolidated Financial Information (Five Years)

Unaudited

Years ended December 31	**2002**	2001	2000	1999	1998
Ratios					
Return on average common equity	**11.7%**	12.1%	12.0%	12.2%	12.1%
Dividend payout ratio	**0.57**	0.59	0.43	0.55	0.59
Interest coverage ratio	**2.1**	2.0	2.2	2.1	2.1
Debt to total capital	**66%**	75%	71%	69%	70%
Common shares outstanding – weighted average	**43.2**	38.3	38.3	38.3	38.5
Data per Common Share					
Earnings before non-recurring items	**$ 2.45**	$ 2.21	$ 2.06	$ 1.94	$ 1.85
Earnings after non-recurring items	**$ 2.45**	$ 2.21	$ 2.84	$ 2.12	$ 1.85
Dividends	**$ 1.410**	$ 1.300	$ 1.225	$ 1.165	$ 1.090
Operating cash flow	**$ 7.36**	$ 1.56	$ 4.68	$ 3.24	$ 2.08
Common equity	**$ 24.00**	$ 18.65	$ 17.86	$ 16.36	$ 15.42
Market price range – High	**$ 42.50**	$ 36.88	$ 33.50	$ 31.40	$ 34.00
– Low	**$ 32.55**	$ 29.00	$ 21.50	$ 20.45	$ 25.50
– Close	**$ 38.16**	$ 33.19	$ 33.35	$ 25.40	$ 30.50

Quarterly Financial Information

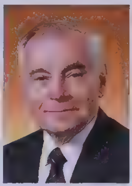
Unaudited

In millions, except where stated otherwise	Three months ended				Year Ended
2002	March	June	September	December	December
Revenues	**$ 579.8**	**$ 351.2**	**$ 273.2**	**$ 503.0**	**$ 1,707.2**
Net earnings (loss)	**$ 69.4**	**$ 2.7**	**$ (17.4)**	**$ 57.8**	**$ 112.5**
Earnings (loss) applicable to common shares	**$ 67.8**	**$ 1.1**	**$ (19.1)**	**$ 56.0**	**$ 105.8**
Data per common share					
Basic earnings (loss)	**$ 1.70**	**$ 0.03**	**$ (0.44)**	**$ 1.23**	**$ 2.45**
Diluted earnings (loss)	**$ 1.69**	**$ 0.03**	**$ (0.44)**	**$ 1.22**	**$ 2.43**
Dividends paid	**$ 0.33**	**$ 0.36**	**$ 0.36**	**$ 0.36**	**$ 1.41**
Common share trading — TSX					
High	**$ 38.20**	**$ 41.99**	**$ 42.00**	**$ 42.50**	**$ 42.50**
Low	**$ 32.55**	**$ 36.55**	**$ 35.25**	**$ 35.80**	**$ 32.55**
Close	**$ 38.07**	**$ 40.10**	**$ 41.95**	**$ 38.16**	**$ 38.16**
Volume	**4.8**	**3.7**	**2.9**	**4.9**	**16.3**
Common shares outstanding – weighted average	**39.8**	**43.6**	**43.7**	**45.6**	**43.2**

2001					
Revenues	$ 598.2	$ 345.5	$ 256.9	$ 465.7	$ 1,666.3
Net earnings (loss)	$ 62.5	$ (1.5)	$ (20.7)	$ 50.7	$ 91.0
Earnings (loss) applicable to common shares	$ 61.0	$ (3.1)	$ (22.3)	$ 49.0	$ 84.6
Data per common share					
Basic earnings (loss)	$ 1.59	$ (0.08)	$ (0.58)	$ 1.28	$ 2.21
Diluted earnings (loss)	$ 1.58	$ (0.08)	$ (0.58)	$ 1.27	$ 2.19
Dividends paid	$ 0.31	$ 0.33	$ 0.33	$ 0.33	$ 1.30
Common share trading — TSX					
High	$ 34.75	$ 35.10	$ 36.50	$ 36.88	$ 36.88
Low	$ 29.00	$ 30.12	$ 31.35	$ 32.07	$ 29.00
Close	$ 32.50	$ 31.85	$ 36.09	$ 33.19	$ 33.19
Volume	2.7	3.2	2.2	2.7	10.8
Common shares outstanding – weighted average	38.3	38.3	38.3	38.3	38.3

Board of Directors

Iain J. Harris, of Vancouver, British Columbia, is Chairman of the Board of BC Gas Inc. and Chairman and CEO of Summit Holdings Ltd., a private holding and investment company. He is also Chairman of The Canadian Depository for Securities Ltd. and a director of International Forest Products Ltd., Leading Brands Inc., and TELUS Corporation. He joined the Board of BC Gas in 1995 and was elected Chairman in 2002.



Brian A. Canfield, of Point Roberts, Washington, is the Chairman of TELUS Corporation and former Chairman, President and CEO of BC Telecom. He also serves on the boards of Suncor Energy Inc. and the Toronto Stock Exchange. He joined the Board of BC Gas in 1996. 1, 2

Marilyn E. Cassady, of Vancouver, British Columbia, is an active member of the community. She is a director of the CKNW Orphans Fund and was formerly Chairman of the New Westminster Economic Development Association and Chairman of the Fraser River Discovery Centre. She joined the Board of BC Gas in 1993. 3

Michael W. O'Brien, of Canmore, Alberta, is a former Executive Vice President, Corporate Development, and CFO of Suncor Energy Inc. He is a director of Suncor Energy Inc. and of PrimeWest Energy Inc., and Chair of the Board of Trustees for Nature Conservancy of Canada. He joined the Board of BC Gas in 2002. 1

John M. Reid, of Vancouver, British Columbia, is President and CEO of BC Gas Inc. Before joining BC Gas, he worked with Scott Paper Limited in senior financial positions and as President and CEO. He is Past Chair of the Campaign Cabinet of the United Way of the Lower Mainland and also serves on the boards of MacDonald, Dettwiler and Associates Ltd., Lester B. Pearson College, University of British Columbia, and B.C. Business Council. He joined the Board of BC Gas in 1997.

James M. Stanford, of Calgary, Alberta, is President of Stanford Resource Management Inc. and former President and CEO of Petro-Canada. He is current Chair of the Canada Foundation for Sustainable Development Technology, and serves on the boards of several companies, including EnCana Corporation, NOVA Chemicals Corporation, and Inco Limited. He joined the Board of BC Gas in 2001. 2

Corporate Governance

At BC Gas, we have an established process and structures in place to direct and manage our business effectively. These corporate governance practices fully comply with the Toronto Stock Exchange Guidelines for Effective Corporate Governance, and we review them regularly to ensure they reflect best practices.

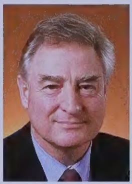
RESPONSIBILITY OF THE BOARD

Our Board of Directors is responsible for providing the Company with objective and prudent guidance. Each year, the Board and the executive management team come together for an intensive three-day strategic planning session. The result is a highly focused strategic plan that identifies business opportunities and potential risks.

In 1999, we initiated a formal Enterprise Risk Management (ERM) process to ensure that we were implementing effective risk management practices. Adopted by the Board of Directors for the Company and its subsidiaries, the ERM process has continued to evolve. In recognition of our successful implementation of effective governance processes, we were the private sector recipient and overall winner of the Conference Board of Canada/Spencer Stuart 2003 National Award in Governance.

On an ongoing basis the Board at its regularly scheduled meetings reviews management's significant operational plans and activities, as well as systems related to the identification and control of principal business risks.

Mark L. Cullen, of Surrey, British Columbia, is former Vice Chairman of RBC Dominion Securities. He is a director of Canfor Corporation, British Columbia Ferry Corporation, MacDonald, Dettwiler and Associates Ltd., and Wajax Limited. He joined the Board of BC Gas in 1998. 1, 2

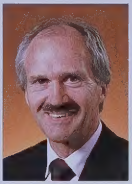


David L. Emerson, of Vancouver, British Columbia, is President and CEO of Canfor Corporation and Chairman of British Columbia Ferry Corporation. He also chairs the BC Progress Board. He is past President and CEO of the Vancouver International Airport Authority, a former Deputy Minister to the Premier and Deputy Minister of Finance for the province of British Columbia. He joined the Board of BC Gas in 2000. 1

Ida J. Goodreau, of Vancouver, British Columbia, is President and CEO of the Vancouver Coastal Health Authority. She previously held senior executive positions with Norske Skog, Fletcher Challenge Canada Limited, Tasman Pulp and Paper, and Union Gas Ltd. She joined the Board of BC Gas in 2002. 3, 4

Robert T. Stewart, of West Vancouver, British Columbia, is a former Chairman and CEO of Scott Paper Limited. He is a director of Shell Canada Limited and Maple Leaf Foods Inc., and has held many positions on the boards of businesses and community organizations. He joined the Board of BC Gas in 1993. 3, 4

Dr. David W. Strangway, of Vancouver, British Columbia, is President and CEO of the Canadian Foundation for Innovation. Before joining the Foundation, he was President of the University of British Columbia from 1985 to 1997. He has served on numerous scientific and academic committees. He joined the Board of BC Gas in 1993. 2, 4



Douglas W. G. Whitehead, of Vancouver, British Columbia, is President and CEO of Finning International Inc. Prior to joining Finning, he was President and CEO of Fletcher Challenge Canada Limited. He serves on the boards of Ballard Power Systems Inc., Belkorp Industries Inc., and The Conference Board of Canada. He joined the Board of BC Gas in 2000. 3, 4

COMMITTEES OF THE BOARD: 1 Audit Committee 2 Corporate Governance Committee 3 Environment and Safety Committee 4 Management Resources Committee

BC Gas Inc. directors are also directors of BC Gas Utility Ltd. and Terasen Pipelines (Trans Mountain) Inc. (formerly Trans Mountain Pipe Line Company Ltd.)

MEMBERS OF THE BOARD

Our Board members possess a wide breadth of business and industry expertise relevant to our business. All BC Gas Board members, with the exception of John M. Reid who is Chief Executive Officer and President of the Company, are unrelated Directors. No significant shareholders are represented on the Board. All members of the Board own shares in BC Gas to further align their interests with those of our shareholders.

The unrelated Directors hold regular discussions completely independent of management.

BOARD COMMITTEES

We have established four Board committees with specific areas of focus. These Committees are composed exclusively of independent directors, and include the Audit, Corporate Governance, Environment and Safety, and Management Resources committees. Each committee meets throughout the year to discuss issues, review policies, report on activities and submit agenda items for meetings.

Please refer to our information circular for more information about our Board committees and our corporate governance policies.

Executive Officers

John M. Reid
President and Chief Executive Officer

Richard T. Ballantyne
President, Terasen Pipelines Inc.

Gordon R. Barefoot
Senior Vice President, Multi-Utility Services

Mary E. Bruce
Senior Vice President, Human Resources

Randall L. Jespersen
President, BC Gas Utility Ltd.

John (Jac) W. Kreut
President and CEO, Centra Gas British Columbia Inc.

Patrick D. Lloyd
Senior Vice President, Legal and Government Affairs

Milton C. Woensdregt
Senior Vice President, Finance, Chief Financial Officer and Treasurer

Stephen M.G. Richards
General Counsel, Chief Risk Officer and Corporate Secretary

Investor Information

ANNUAL AND SPECIAL GENERAL MEETING

The Annual and Special General Meeting of Shareholders will be held at 11:00 a.m. on Friday, April 25, 2003 at The Fairmont Waterfront Hotel in Vancouver, British Columbia.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

Registered holders of the Company's Common shares (except residents of the United States) may elect to reinvest their cash dividends in new Common shares. Participants in the Plan may also make optional cash payments of up to $20,000 per calendar year to purchase additional Common shares. Optional cash payments must be received by the Registrar and Transfer Agent by the last days of January, April, July and October to be reinvested on the following dividend payment date. There are no brokerage commissions payable on shares purchased pursuant to the Plan. For an information package on the Plan, or to register in the Plan, please contact Shareholder Relations.

EMPLOYEE SHARE PURCHASE PLAN

Employees of BC Gas Inc. and certain of its subsidiaries may contribute from 2% to 6% of their earnings through payroll deductions to purchase the Company's Common shares. Shares are purchased at 100% of the market price.

COMMON SHARE DISTRIBUTION

Approximately 99.4% of the outstanding common shares are owned by residents of Canada. The following table summarizes the distribution of shares at December 31, 2002.

	Shareholders	Shares
Canada	6,356	55,931,340
USA	96	293,543
Others	30	49,122
Total	6,482	56,274,005

COMMON SHARE OWNERSHIP CONSTRAINTS

In accordance with the statute that privatized the Company, the following constraints on BC Gas Inc. share ownership exist: (i) the total number of voting shares held by any one person or associated persons shall not exceed 10% of the total number of issued and outstanding voting shares; and (ii) non-Canadian citizens and non-residents of Canada will not be permitted to hold or beneficially own in the aggregate, directly or indirectly, more than 20% of the total number of the issued and outstanding voting shares of the Company.

Valuation Day Value (Dec. 22, 1971)
Common Shares[1] $6.50
Feb. 22, 1994 Closing Price, $15.50

REGISTRAR AND TRANSFER AGENT

Shareholder accounts, including dividend payments, direct deposit service and the transfer of shares are handled by the Company's registrar and transfer agent:

CIBC Mellon Trust Company
16th Floor, 1066 West Hastings Street
Vancouver, B.C. V6E 3X1
Telephone: (604) 688-4330
Toll-free: 1 (800) 387-0825
Fax: (604) 688-4301
Web site: www.cibcmellon.com

DUPLICATE ANNUAL AND INTERIM REPORTS

To eliminate duplicate mailings of annual and quarterly reports, please contact CIBC Mellon Trust Company.

SHARES LISTED (Symbol: BCG)

The Toronto Stock Exchange

SCHEDULED DIVIDEND PAYMENT DATES

February 28, 2003
May 31, 2003
August 31, 2003
November 30, 2003

[1]*Adjusted for the two-for-one stock split on November 18, 1985.*

CORPORATE OFFICES

BC Gas Inc.
1111 West Georgia Street
Vancouver, B.C. V6E 4M4
Main Telephone: (604) 443-6500

BC Gas Utility Ltd.
16705 Fraser Highway
Surrey, B.C. V3S 2X7
Telephone: (604) 576-7000
Toll-free: 1 (800) 773-7001

Centra Gas British Columbia Inc.
1675 Douglas Street
Victoria, B.C. V8W 3V3
Telephone: (250) 480-4300

Terasen Pipelines Inc.
#2700, 300 – 5th Avenue SW
Calgary, Alberta T2P 5J2
Telephone: (403) 514-6400

SHAREHOLDER RELATIONS

Inquiries regarding the Company's Dividend Reinvestment and Share Purchase Plan and all other inquiries or comments by shareholders regarding the Company should be directed to:

Debra Nelson
Telephone: (604) 443-6559
Toll-free (Canada): 1 (800) 667-9177
Fax: (604) 443-6630
E-mail: shareholder@bcgas.com

INVESTOR RELATIONS

Portfolio managers, investment analysts and other investors requesting financial information regarding BC Gas should contact:

David Bryson
Telephone: (604) 443-6527
Fax: (604) 443-6673
E-mail: ir@bcgas.com

INTERNET

Web site: www.bcgas.com

Project management: Arlette Communication Inc.
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BC Gas Inc.

At BC Gas we are focused on connecting our customers safely, efficiently and reliably to the energy and services they need for their homes and businesses.

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www.bcgas.com